S. HRG. 109–1140

RURAL AIR SERVICE

HEARING

BEFORE THE

SUBCOMMITTEE ON AVIATION

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

SEPTEMBER 14, 2006

Printed for the use of the Committee on Commerce, Science, and Transportation

U.S. GOVERNMENT PRINTING OFFICE
66–985 PDF WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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RURAL AIR SERVICE

THURSDAY, SEPTEMBER 14, 2006

U.S. SENATE,
SUBCOMMITTEE ON AVIATION,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:03 a.m. in room SR–253, Russell Senate Office Building, Hon. Conrad Burns, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF HON. CONRAD BURNS, U.S. SENATOR FROM MONTANA

Senator BURNS. The Subcommittee on Aviation will come to order.

And this morning I want to thank everybody for coming in on this important topic, especially for the Senator from West Virginia and to Montana. We'll examine the importance of rural air service. The hearing will review progress achieved by Essential Air Service and Small Community Air Service Development programs. We will look at the obstacles to which—the accomplishment of the program goals, and we'll consider suggestions for improvement in upcoming aviation reauthorization legislation coming up, which we're just a year away.

This committee, and Congress as a whole, has long been concerned about the benefits of preserving airline service to small and rural communities. When we deregulated the airlines, in the late 1970s, we also created the Essential Air Service program to ensure that communities receiving service before deregulation would continue to receive service through the transition.

In addition, in 2000—year 2000, we authorized the Small Community Air Service Development Pilot Program to provide additional tools to help small communities enhance their air service. This is a topic near and dear to us in rural States like Montana. Montana has eight EAS communities, and many of them do not have any other form of public transportation serving their community. Driving nearly 4 hours from Sidney, Montana, to Billings, Montana, just isn't an option for those most in need of medical attention. The service is aptly named, and it is essential.

My state is not the only state who benefits from this service, and Congress has recognized the importance of aviation connectivity over the years. In fact, civil aviation has become an integral part of rural U.S. economy. It is a key factor in maintaining economic growth and a high quality of life. Together with telecommunication

advancements, civil aviation has enabled many Montana communities to enter the mainstream of the—global commerce.

Rural communities gain tremendous economic benefit from their ability to attract and retain businesses, attract visitors, and provide vital medical facility access. These are—arguments are not lost on me, and the rural air service will continue to be a focal point of this Committee. We have our work cut out for us in the upcoming reauthorization debate, and I think we have the opportunity to provide a solid foundation and adequate funding stream for rural air service for many years to come. And I look forward to the ideas and hearing the testimony today.

I'm joined today, very ably, my good friend from West Virginia. Senator Rockefeller, if you have an opening statement, you may make it, sir, and thank you for coming.

STATEMENT OF HON. JOHN D. ROCKEFELLER IV, U.S. SENATOR FROM WEST VIRGINIA

Senator ROCKEFELLER. Thank you, Chairman Burns. And I thank you for having this—as we always open our statements, right? Thank you for having this hearing.

As the Chairman indicated, we're approaching the 30th year of airline deregulation. I remember so vividly that United, Eastern, and American had large jets that came into Charleston and other places. And within 3 or 4 weeks of deregulation, they were gone. Now, there's no question that deregulation helped large urban communities and ushered in a new era of prosperity, but it meant a loss of service and convenience and, often, higher prices, always higher prices, for West Virginia, Mississippi, and Montana's rural communities.

I recognize that we're not going back to the days of regulation, so that's—we're too global for that, and I understand that. And I know that millions of Americans in urban areas really have benefited, and that it's tremendously important for them. That's a large part of our economy, and to say that you represent a rural state and ignore everything else is not modern. Sometimes we feel that way, but it's not modern.

But I think that Congress does have an obligation to protect the rural parts of our country, just like when the interstates were built, that was considered a national system. They went through rural areas, they went through urban areas; it was all the same. They had to be treated the same. That's the future with broadband service. That was the future, actually, with railroads, back in the latter part of the 19th century.

I've always been a very strong supporter of making sure that the Federal Government is a partner with local communities—and help them address their air service needs. I think that's part of our responsibility.

I helped author the Small Community Air Service Development Program in 2000—the Chairman made reference to that—with a few of my colleagues on this committee. I worked with Senator Lott to make changes in the Essential Air Service program in the last FAA reauthorization effort. Unfortunately, these two programs have not received support from the Administration, or adequate funding from the Congress itself.

This has to change. I believe that Congress must provide a more stable funding source for small community air service programs. As this committee begins consideration of an FAA reauthorization bill next year, I will work to make sure that the Essential Air Service program and the Small Community Air Service program have a dedicated source and a robust source of funding that is not reliant on the annual whims of the appropriating process. If Congress moves to adopt a user-fee system, for example, to fund the aviation system, I will propose a Small Community Air Service fee to fund the Essential Air Service brand and the Small Community Air Service Development Program. If Congress retains the existing financing structure, I will seek other options to fund these critical programs.

I know this will be an uphill fight. I don't care. Everything's an uphill fight when it comes to aviation and transportation in rural states. We're all accustomed to it, and we never give up, whether it's captive shippers or anything else.

I know that no one in the industry wants to pay more in fees, but this is a question of fundamental fairness and the Nation's safety. We cannot continue to have a two-tiered system in aviation. The benefits of airline deregulation were not evenly distributed. We understood that. And it's come to be even more true than we thought. And so, finding ways to fund programs to mitigate this—these differences are very important.

In my judgment, over the last 30 years since airline deregulation, Congress has really done—slowly just walked away from its commitment to making sure that small and rural communities remain connected to the national aviation system; hub and spokes, whatever you want to call it. Next year in the FAA bill, Congress has a chance to recognize, and to correct, that problem, and I am going to fight for that.

Senator BURNS. Senator Lott?

STATEMENT OF HON. TRENT LOTT, U.S. SENATOR FROM MISSISSIPPI

Senator LOTT. Well, thank you, Mr. Chairman, for having this very important hearing. It should be noted the Senators who are attending are bipartisan and are from Mississippi, Montana, North Dakota, Nebraska, Arkansas, and West Virginia, all small rural states, and this is a very important issue for all——

Senator BURNS. Turn your microphone on, there, if you would, please.

Senator LOTT. Well——

Senator BURNS. There you go.

Senator LOTT.—I was—well, I was going to praise you. That's why you wanted it on at this point.

I want to thank you, Mr. Chairman, for having the hearing. This is a very important hearing for the Senators here, and, I think, for the country.

I want to urge the witnesses here today to provide leadership in this area, but in the aviation area, in particular, and in general. Transportation is a key component of the future economic development of this country. Americans are mobile. We're going to move around. And we're going to get air service, and it has to include the

rural areas or—under the current system, or we'll get it some other way.

I have worked on AIR–21, Vision 2000, worked on the reauthorization bills, have been very aggressive in pushing the programs that are important to our rural communities, including the Essential Air Service program, which I have one airport in my state that participates in, and the Small Community Air Service Development Program, which has turned out to be a real plus.

I'm not going to get too critical today of the Administration, but I do want to say I don't think the Administration has paid enough attention to aviation. I've enjoyed working with Marion Blakey at FAA, but, frankly, you're not forward-leaning, we're pulling you. We have to—we have to come up with these programs, we have to authorize the funding, and then we have to do the funding, because the Administration, year after year, doesn't ask for the funding. And I'm tired of that, and I'm embarrassed about it. You know, unless you can get from Montana to these major hubs, unless you get from Mississippi to Atlanta, you know, you're going to cut the number of people and the opportunities for half the country out. And so, I think we should support these programs. I think we should fund them completely. And I think the Administration needs to get off its royal—and start really aggressively pushing transportation—lanes, trains, planes, ports, and harbors, the whole package, because if we don't, we're going to fall—we're going to fall behind in this world competition.

So, I appreciate what you're trying to do. I know a little bit about the witnesses here today. And I hope you'll take that message back. I just spoke to the nominee for the Department of Transportation, and urged her to make it clear that we're going to have an aggressive transportation plan. And the plans don't begin in New York and L.A.; they begin in Charleston, West Virginia, and, you know, Montana, and Jackson, Mississippi. So, just keep that in mind.

Thank you very much, Mr. Chairman.

Senator BURNS. Thank you, Senator Lott. And that's a nice message to send.

Mr. Reynolds, thank you. We'd like to welcome you back. We can remember when you served on—oh, Senator Dorgan is here. My goodness. North Dakota. Yes, you can turn your refrigerated truck off when you go—when you cross North Dakota.

Senator DORGAN. Mr. Chairman, I will forego any Montana humor.

[Laughter.]

Senator DORGAN. We have all those Montana jokes in North Dakota that all of us have heard. And, Mr. Chairman, you've heard them all, as well, so I won't do that today. But thank you for recognizing me.

Senator BURNS. Sorry—I'm sorry about that. I apologize.

STATEMENT OF HON. BYRON L. DORGAN, U.S. SENATOR FROM NORTH DAKOTA

Senator DORGAN. I appreciate your holding this hearing. And I want to just make a couple of opening comments.

I appreciate the comments made by my two colleagues, Senator Lott and Senator Rockefeller. And I did not hear your opening

statement, Mr. Chairman, but I assume that it follows in the same vein. I know that you have worked with me and many others for a long while on these issues.

But let me just—let me make this comment. The airlines in this country—notwithstanding the issue of rural service, the airlines are struggling, for a lot of reasons. There's a spike in the price of jet fuel and terrorist threat and security and so on. Airlines are struggling. But whether in good times or bad times, whether airlines are struggling or doing well, there is an overriding issue of service to rural areas, and that's what I believe this hearing is attempting to get at. And let me describe it. We went through, in this town, a deregulation fever. And, you know, people walked around here with sweat on their brow and shortness of breath talking about how quickly we could deregulate everything. So, we deregulated the airlines and the railroads. And the result is, the rural areas of this country got the short end of the stick. And I think deregulation has provided powerful benefits if you live in one of America's biggest cities. You have multiple opportunities to find different carriers at different and competitive prices to fly almost anywhere. And God bless you, good for you. But part of this country was left behind, and that is not what should happen on services that are essential. And I believe transportation services are essential.

Now, let me describe who was left behind. Mississippi would have its stories. West Virginia, Montana would have their stories. And North Dakota would have its stories. I have previously brought to this committee room a picture of the world's largest cow. Now, probably no one in this room has seen the world's largest cow except me. It actually has a name; it's called Salem Sue. Salem Sue sits on a very large hill. Salem Sue is a Holstein cow sitting on a hill overlooking New Salem, North Dakota. So, I said, with a picture of this cow, the largest cow in the world—that's—metal cow, I should say—the world's largest cow and Mickey Mouse. I had two large posters. I said, "Now, depending on which one you wanted to see, here's the cost of getting there. You could travel half as far from Washington, D.C., to North Dakota to see the world's largest cow, or you could travel twice as far from Washington, D.C., to go see Mickey Mouse in Disneyland. Now, here are your choices. You can travel half as far to see the world's largest cow, and pay twice as much, or you can pay twice as far—twice as much, rather—excuse me, you can travel twice as far and pay half as much to go to Disneyland."

Now, if someone just looked at that, they say, "Well, what on Earth is going on here? That's just stupid." Yes, it is stupid. We say, in this country, "Oh, but depending on where you live, you can travel twice as far and pay half as much, or, if you live somewhere else, particularly in a rural area, then you're going to get stuck paying twice as much for traveling half the distance."

I'm just telling you, by definition that leaves a part of this country behind. It says to someone who wants to do business in Montana, West Virginia, Mississippi, or North Dakota, "By the way, when you move your plant here, make sure you understand, your transportation costs are going to be a lot higher, because it costs

a lot more to fly from our area to the major metropolitan areas." That's what deregulation has given us.

Now, I don't know that I know all the answers on how to address this. I know some of them. But I think the need to hold this hearing, and to do it routinely and repeatedly until we find a way to adjust deregulation, is urgent. We deregulated, and now what we have are large carriers retreating into large metropolitan areas, where they dominate service in those areas. So, we now have deregulated monopolies in regional areas. I'm telling you, I don't think—that might work for some parts of the country, and God bless them, but it sure on Earth doesn't work for rural areas of this country. I think it systematically cheats rural travelers. And so—rural State travelers, I should say.

I want the airlines to do well, but I also want all Americans to have reasonable access, at decent, competitive prices, to good airline service. And that is not now the case.

Let me just finish with one final point with a chart.

Senator ROCKEFELLER. What about the cow?

Senator DORGAN. The—well, the cow's still there, and I'd invite all my colleagues——

[Laughter.]

Senator DORGAN.—to pay twice as much to travel half as far to see Salem Sue.

In the meantime, I've put up here an airline ticket that shows I can get on an airline here in Washington and fly to Los Angeles, California, and it's going to cost me $224.50, but I can fly half as far and go to Fargo, North Dakota, and pay three times as much. That's my choice today. A heck of a choice. And, you know, if you went to your constituents, any of us, and said, "You know, we've got a new pricing scheme that we've agreed to with respect to deregulation, travel half as far and pay three times as much, and we'd like you to just chew on that and see what you think," I think I know what the crescendo of voices would say, coming from rural areas in this country. They'd say, "Hell, no, that doesn't make sense for this country. That's not fair to a major portion of this country."

So, Mr. Chairman, having said all that, I'm pleased that you've called this hearing. I'm pleased to be here with my colleagues from rural states—Arkansas, Nebraska, Mississippi, West Virginia. We need to work together to find ways to address these issues. More competition, lower prices. That'll be a fairer situation for people who live in rural parts of this country.

Senator BURNS. Well, in the competition area—and, as you well know, most of our—we don't—they don't even have to compete with bus or train service; there's little or no public transportation at all.

Senator Nelson?

STATEMENT OF HON. E. BENJAMIN NELSON, U.S. SENATOR FROM NEBRASKA

Senator BEN NELSON. Thank you, Mr. Chairman. Appreciate very much your holding this hearing.

And I, like Senator Dorgan, am very concerned about rural air service for Nebraska, in particular, but for our rural parts of our country. Rural air service is obviously a very important issue in

states like ours, and certainly like Nebraska. Our largest airport in Nebraska is only 20 gates, and most of our airport runways are surrounded by cornfields. So, as you can imagine, this is a big issue for my constituents.

And I'd like to quickly give you a picture of aviation in Nebraska. We have 83 public-use airports in the state, and, of those, only two in the eastern part of the state, Omaha and Lincoln, have scheduled air-carrier jet service. That leaves 81 communities that must rely on general aviation support or Essential Air Service subsidies. Charter operations are concentrated in the east, so general aviation support is very limited in communities in central and western Nebraska. As you can see, our seven EAS communities are critical for the people living in rural Nebraska to have access to the Nation's aviation system.

And in anticipation of this hearing, I contacted a number of our Essential Air Service communities to get their thoughts on rural air service; specifically, the Essential Air Service and Small Community Air Service Development Program. And I'd like to highlight for the Committee portions of the responses I've received. And, Mr. Chairman, I would ask unanimous consent to submit these letters from these communities for the record.

Senator BURNS. Without objection.

[The information referred to follows:]

ALLIANCE MUNICIPAL AIRPORT
Alliance, NE, September 12, 2006

Hon. E. BENJAMIN NELSON,
Senate Committee on Commerce, Science, and Transportation,
Washington, DC.

Dear Senator Nelson:

On behalf of the City of Alliance I would like to express our support for continuation of the Essential Air Service and the Small Community Air Service Development Grant Programs. The benefit to the Alliance Municipal Airport provided through these programs supports the economic vitality of the region.

We are currently developing our Instrument Landing System (ILS) in order to better serve our traveling public, air carriers, and general aviation customers. Continued development of air services is vital to the growth of our community. The availability of commercial flights provides much needed access to the area for both business and leisure activities. The presence of the Alliance Municipal Airport, and the funding that supports it, is a vital part of our community development and way of life.

We thank you for your support of Essential Air Service and the Small Community Air Service Development Grant Programs.

Sincerely,

RICHARD C. CAYER, P.E.,
Airport Manager.

CENTRAL NEBRASKA REGIONAL AIRPORT

Hon. E. BENJAMIN NELSON,
Senate Committee on Commerce, Science, and Transportation,
Washington, DC.

RE: COMMENTS ON ESSENTIAL AIR SERVICE

Dear Senator Nelson:

Thank you for the opportunity for me to comment on my views of rural air service. As an Executive Director for the Central Nebraska Regional Airport, a rural airport, I am deeply concerned about this very issue.

Senator Nelson, as I have expressed to you on several occasions, rural America is the true essence of what has made this country a strong and prosperous country. Rural America represents the true backbone of this country with its agriculture production such as corn, soybeans, wheat, beef, and more recently in the State of Nebraska, ethanol production. We are now seeing in Nebraska, a diversification to not only agriculture, but we are seeing a tremendous growth in industry, goods, and services.

In order to continue this diversification, communities like Grand Island, rely on air service to fly in and out the business travelers from all parts of the world. Essential Air Service has provided that very bridge to the outside world in order for rural communities to continue to grow and prosper. It is vitally important to keep this program in place!

I would like to take a moment to commend the staff at the Department of Transportation that administers the Essential Air Service program. I do not envy the tough job they have "juggling" $110 million dollars between 120 plus communities. The DOT takes a "beating" from Airport Directors like myself when the community is given air service that is viewed as "not viable."

In further reviewing the Essential Air Service program, it is important to keep in mind the viability of the air service proposals. We all could spend hours debating what "viable" air service is. This is why community input is so valuable and should be given more consideration by the DOT. As an Airport Director, I feel it is important to solicit public input. Public input helped my board members and I make our recommendation to the DOT as to the air service that is desired and more importantly, supported by the local population. My goal as an airport is to wean off of the Essential Air Service program. I believe this should be the goal for all airports that are on EAS subsidies. I would caution the Senate Commerce Committee the lowest cost proposals submitted by the airlines are not always the best for sustaining long-term viable air service. The DOT needs to consider the public input more and what proposal is going to benefit the community in the long run!

I feel the Small Community Air Service Development Grant Program is a great program for small communities. I do have some concerns about the size of some "small communities" that have received this grant in the past. I definitely support this program as long as it is for small communities!

In closing, I would be honored to testify as a representative of small airports. I feel the decisionmakers in Washington, D.C., need to face Airport Directors of rural airports to hear our concerns. The direct dialogue is crucial for all of us so decisions are made on factual testimonies from those of us working in "Heartland U.S.A."

Sincerely submitted,

MICHAEL J. OLSON, A.A.E,
Executive Airport Director.

NEBRASKA DEPARTMENT OF AERONAUTICS—AIRPORT ADVISORY BOARD
McCook, NE, September 12, 2006

Hon. E. BENJAMIN NELSON,
Senate Committee on Commerce, Science, and Transportation,
Washington, DC.

Dear Senator Nelson:

As a Commissioner for the Nebraska Department of Aeronautics and Chairman of the McCook, Nebraska Airport Advisory Board, I am annually concerned about the continued funding for the Essential Air Service and the Small Community Air Service Development Grant Programs. Without the funding provided by these programs to communities in Nebraska, reliable air service and the means to promote it would no longer exist. Not only is it a problem for our state, but for all of the other "Fly Over" states in the country. Public transportation would continue to be threatened with permanent loss of commercial air service. Demographics and rural economies' conditions restrict the profitable operations of the airlines serving these communities. Over the years we have seen several airlines fail in their attempt to achieve profitability.

Not only does this service provide our cities public transportation, it also benefits rural economic development and visiting medical personnel from our state's major hospitals. Without commercial air service available, many of these patients would be required to commute long distances to major medical facilities. I fully understand the pressure to eliminate both programs. However, living in one of these isolated communities, I fully understand that these programs are all that allows us to commute to the rest of the world.

Thank you for your time and consideration of these important issues.

Sincerely,

DOUGLAS F. VAP,
Commissioner.

CITY OF MCCOOK
McCook, NE, September 13, 2006

Hon. E. BENJAMIN NELSON,
Senate Committee on Commerce, Science, and Transportation,
Washington, DC.

Dear Senator Nelson:

The citizens of Southwest Nebraska would like to thank you for your continued hard work to try and secure appropriate funding for Essential Air Service and the Small Community Air Service Development Grant Program. As you well know, funding for Essential Air Service is vital to the continuation of passenger air service at McCook Regional Airport. Having access to commercial air service is crucial to the economic stability to communities like McCook and without this service it would make recruiting new businesses very difficult. A statement that I have recently heard is that economic development does not come by bus or train, it comes by air. This statement could not be more true. As we have seen, without the assistance of EAS, it would not be profitable for an airline to operate in rural communities; thus eliminating this essential need.

Again, thank you for your continued support of Southwest Nebraska and especially your current effort to secure appropriate funding for Essential Air Service and the Small Community Air Service Development Grant Program for rural America.

Cordially,

KYLE POTTHOFF,
Public Works Director.

WESTERN NEBRASKA REGIONAL AIRPORT
Scottsbluff, NE, September 28, 2006

Hon. E. BENJAMIN NELSON,
Senate Committee on Commerce, Science, and Transportation,
Washington, DC.

Dear Senator Nelson:

We apologize for the late arrival of this support letter to you for the Essential Air Service Program as well as the Small Community Development Grant Program.

As you are well aware. whether it is in Nebraska or any other state, these programs are vital for the survival of small communities across the United States. Small airports provide an important service to individuals living outside of big cities. Continued funding of the Essential Air Service Program is the only way airlines could possibly continue to provide air service from smaller airports to the large multi-airline airports.

The Small Community Development Block Grant Program is another program that is very necessary to continue to provide for the possibility of the start-up of new airlines and for the ability for small communities to advertise and promote economic development for their community or better yet their region that they are providing air service for.

Western Nebraska genuinely thanks you for your continued support of these very important programs for small communities and the flying public to continue to receive these valuable services.

Very truly yours,

DONALD E. OVERMAN,
Airport Authority Board Chairman.

NEBRASKA DEPARTMENT OF AERONAUTICS
Lincoln, NE, September 12, 2006

Mr. DOUG VAP,
109 East N Street,
McCook, NE.

RE: EAS

Doug:

In response to your request for our thoughts on EAS, please consider the financial impact—not just to the traveler; but the communities at large. Some critical figures come to mind.

We have 83 public use airports in the state. Of those, only two (Omaha & Lincoln) have scheduled, air-carrier jet service. That leaves 81 communities that must rely on general aviation support or EAS subsidies. Charter operations, too, are concentrated in the east; so general aviation support is severely limited in those communities in the central and western regions of the state.

In order to effectively recruit new industry, we absolutely must maintain a strong network of airports and access to those airports (scheduled service). I'm sure you are well aware of the old adage, "New industry does not come to town in a Greyhound Bus." In recent years we have upgraded our Nebraska airports at the rate of approximately $30 million a year. That's considerable investment to ignore. Our communities have been strong supporters on air travel. In many cases, it represents their lifeline to government, industry and, of course, medical care. Communities like Chadron, Alliance, and McCook come to mind immediately.

Aviation's Impact on Nebraska can, in fact, be quantified. A recent NDA-commissioned study cited a direct impact of 29,400 jobs and $681.3 million in payroll (including tenants, construction and visitors). And, these figures do not include the "multiplier," which inflates the numbers considerably. So, before we cut back on this program, we must consider both the immediate impact on our people and the potentially drastic impact on the future vitality of our communities. The media recently claimed that Nebraska was the seventh best state to welcome new industry. That's assuming we have reasonable access, and right now, the best we have relies on EAS subsidy. Don't forget the "Greyhound bus"!

Respectfully,

STUART E. MACTAGGART,
Director.

Senator BEN NELSON. Now, McCook, Nebraska, my hometown, only 70 miles south of the Chairman's wife's hometown of North

Platte, says, “Having access to commercial air service is crucial to the economic stability to communities like McCook, and, without this service, it would make recruiting new businesses very difficult.” Economic development does not come by bus or train, it comes by air.

And from Grand Island, Nebraska, “Communities like Grand Island rely on air service to fly in business travelers from all parts of the world. Essential Air Service has provided that very bridge to the outside world in order for rural communities to grow and prosper.”

From Scottsbluff, Nebraska, Essential Air Service and the Small Community Air Service Development Program are, “vital for the survival of small communities across the United States. Small airports provide an important service to individuals living outside of big cities. Continued funding of Essential Air Service is the only way airlines could possibly continue to provide air service from smaller airports to largest—to large multi-airline airports.”

So, from Alliance, Essential Air Service, “supports the economic vitality of the region. Continued development of air services is vital to the growth of our community.”

And from the Nebraska Department of Aeronautics, air service in rural communities, “represents their lifeline to government, industry, and medical care.”

I highlight these comments in an effort to make the point that air service is an economic development issue for rural America. Supporting rural air service means supporting economic growth. And this is why I have opposed the administration’s efforts each budget cycle to cut funding for EAS and the Small Community Air Service Development Program. It means cutting access and opportunity for rural areas.

I’ll end this statement by telling you about yet another Essential Air Service community in Nebraska, Chadron, Nebraska. Earlier this year, after the President released his budget that cut EAS funding, I received a letter from the City Manager of Chadron urging me to continue to support the Essential Air Service program. He explained that the City of Chadron was in negotiations to secure a call-center operation that would ultimately employ over 100 full-time employees in Chadron, the population of which is about 5,000. A hundred full-time employees in Chadron is a major economic development boost. One of the vital factors in the company’s decision to expand its operations in Chadron is the presence of commercial air service. So, I share this story with the Committee as a tangible example of what commercial air service means to our small rural communities. Cutting air service equates to eliminating economic development opportunities and jobs to the communities. And that’s why I’ll continue to fight for funding for Essential Air Service and the Small Community Air Service Development Program.

I hope, as we consider the FAA authorization bill in the coming months, the administration will work with this Committee to find constructive, workable ways to ensure these communities do not lose this critical service.

Thank you, Mr. Chairman.

Senator BURNS. Senator Nelson, other than Scottsbluff, North Platte, probably Kearney, and Grand Island——

Senator BEN NELSON. And McCook.

Senator BURNS.—and McCook—does Alliance and Chadron also—do they fall——

Senator BEN NELSON. Chadron does. Alliance doesn't.

Senator BURNS. Alliance does not?

Senator BEN NELSON. Oh, Alliance—excuse me—Alliance still does, yes, right.

Senator BURNS. OK.

Senator BEN NELSON. Exactly. It's Norfolk that no longer——

Senator BURNS. OK.

Senator BEN NELSON. Yes. Yes.

Senator BURNS. I say that, just in—so I'm—to alert everybody that I'm, sort of, familiar——

Senator BEN NELSON. You're——

Senator BURNS.—with what you speak.

Senator BEN NELSON. You are very impressive.

Senator BURNS. Yes, sir.

Senator Pryor?

STATEMENT OF HON. MARK PRYOR, U.S. SENATOR FROM ARKANSAS

Senator PRYOR. Thank you, Mr. Chairman. Thank you for doing this. I don't have an opening statement. I'd rather get on to the witnesses. Thank you.

Senator BURNS. Thank you. And thank you for your—for your great statement.

[Laughter.]

Senator BURNS. Mr. Reynolds, welcome back. I can remember the days you were on this very Subcommittee. And the Chairman found out that you were going to come back, and so he spruced the place up. I thought he'd done a fairly nice job of that. And we look forward to your comments this morning, and thank you for coming.

STATEMENT OF MICHAEL W. REYNOLDS, ACTING ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION

Mr. REYNOLDS. Thank you very much, Mr. Chairman. Thank you for inviting me to this hearing.

With your permission, I will summarize my prepared statement, which I ask be made part of the record.

Senator BURNS. Without objection. And all witnesses can do that this morning.

Mr. REYNOLDS. Thank you, sir.

I appreciate the opportunity to discuss with you air service to small communities and the two programs administered by the Department of Transportation that deal specifically with such service; namely, the Essential Air Service program and the Small Community Air Service Development Program.

It is clear that air service in this country has changed dramatically over the past several years. Many of the changes have been positive. The growth of low-fare carriers, for example, has made affordable air transportation available to millions of people across the

country. While this is a good development for consumers overall, we recognize that it can create challenges for some small communities, because many consumers are willing to drive to places with a broader array of air service options, making it more difficult for some individual airports to sustain their own traffic levels. This leakage can result in a struggling community airport, but not necessarily consumers who lack access to the national air transportation system.

The challenge that we face is one of adjusting the programs in an efficient and effective manner to account for such changes. All of us, including the Federal Government, as well as the states and the communities themselves, need to re-examine the way we approach small community air service.

Recognizing that Federal Government involvement in smaller community air service has not kept pace with changes in the industry, we have initiated some important reevaluations of the programs that we manage.

Let me first address the EAS program. The laws governing this program have not changed significantly since its inception 28 years ago, notwithstanding the dramatic changes that have taken place in the airline industry. As currently structured, the EAS program acts only as a safety net for small communities receiving subsidized air service by providing threshold levels. Unfortunately, this approach does not help communities attract self-sustaining, unsubsidized air service. With this in mind, the Administration proposed very fundamental and substantial changes of the program in the last FAA reauthorization proposal, as well as in the last several budget requests. Those changes were based on our extensive experience dealing with the communities and the carriers involved with the program, recommendations from both of these constituencies, as well as studies by the GAO that were geared toward finding the answer to successful service at small communities.

Two major themes came through repeatedly: the need for greater participation in addressing—the need for greater participation by communities in addressing their air service issues, and the desire for greater flexibility in doing so.

Currently, a community's eligibility for inclusion in the EAS program is based only on whether it had scheduled air service at the time of deregulation. Once subsidized air service was established, there was little incentive for active community involvement to help ensure that the air service being subsidized would ultimately be successful. As a result of these and many other factors, EAS-subsidized flights are frequently not well-patronized, and our funds are not being used as efficiently or effectively as possible.

Under the Administration's proposal, communities are being asked to become partners in the financing of their air services, but, in exchange, are given a much bigger role in determining the nature of those air services.

In addition to the traditional EAS schedule of two or three roundtrips a day to a hub, the communities would have alternatives, including charter flights, air taxi services, ground transportation links, or perhaps regionalized air services. Community financial participation of 10 percent, 25 percent, or 50 percent in the

costs of the services would be determined by the degree of isolation from access to the national air transportation system.

We believe that this approach would allow the Department to provide the most isolated communities with air service that is tailored to their individual needs. Importantly, it provides communities in the program greater participation, control, and flexibility over how they meet their air service needs, and a far greater incentive to promote the success of those services.

It is important to note the continued growth in the size and cost of the EAS program to taxpayers over time. Before the terrorist attacks of September 11, the Department was paying subsidies for 108 communities, and the budget had been a flat $50 million a year. We are now subsidizing service at 149 communities, and our budget is $110 million for the current fiscal year. For these and other reasons, an approach along the lines proposed by the administration is needed to more directly address small community air service issues, and the Department is fully prepared to work with this Committee in that effort.

On our other program, the Department is now in its fifth year of administering the Small Community Air Service Development Program, which provides grants to smaller communities to address air service and fare issues. For Fiscal Year 2006, the funding for the program is $10 million, and just last month we announced this year's 25 grant recipients. In previous years, the funding level had been at about $20 million.

Following statutorily-mandated selection criteria, we have made many awards to communities throughout the country and authorized a wide variety of projects, seeking both to address diverse types of problems presented and to test communities' different ideas about how to solve them.

Over the past 4 years, the Department has made 150 grant awards. Our experience, to date, with this program demonstrates the great interest and desire of communities to tackle their air service challenges head-on, and to contribute substantially to meet those challenges.

Communities have been very successful in implementing their authorized grant projects, and we have been monitoring the progress of all of them. However, because the majority of projects involve activities over 2- to 4-year periods, only some of them are now at the point of completion.

Beyond implementation, the true test of success will be if improvements are sustained when the grant projects have concluded. As more grant awards are completed, we will review the results to determine if they can offer insight into helping smaller communities with their air service challenges.

The Federal Government, however, is only one piece of the equation. States and communities will need to review their air service in the context of the changed industry structure and service patterns to seek fresh, new solutions to maximize their air service potential, including regional and intermodal approaches and expansion of public-private partnerships to meet these challenges.

In closing, Mr. Chairman, I can assure you that the Department is committed to implementing its small community air service programs in the best and most efficient manner, thereby helping

smaller communities meet some of the challenges they face in obtaining and retaining air service. We look forward to working with you, and the members of this subcommittee, and the Full Committee, as we continue to work toward these objectives.

Thank you, and I will be happy to answer any of your questions.

[The prepared statement of Mr. Reynolds follows:]

PREPARED STATEMENT OF MICHAEL W. REYNOLDS, ACTING ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION

Mr. Chairman, thank you for inviting me to this hearing. I appreciate the opportunity to discuss with you air service to small communities, and the two programs administered by the Department of Transportation that deal specifically with such service, namely the Essential Air Service (EAS) program and the Small Community Air Service Development Program. I can assure you that the Department is committed to implementing its small community air service programs in the best and most efficient manner and thereby helping smaller communities meet the challenges that they face in obtaining and retaining air service.

It is clear that air service in this country has changed dramatically over the past several years. Many of these changes have been very positive. The growth of low-fare carriers, for example, has made affordable air transportation available to millions of people across the country. The number of air travelers has expanded dramatically, as hundreds of passengers have taken advantage of the low fares that have become more widely available. While this is a good development overall for consumers, we recognize that it can create new challenges for some small communities. With a greater number of service choices available, particularly those involving lower fares, many consumers are willing to drive to places with a broader array of air service options, making it more difficult for some individual airports to sustain their own traffic levels. There are, for example, some communities receiving EAS assistance within ready driving distance of two or three major airports. This “leakage” can result in a struggling community airport, but not necessarily consumers who lack access to the national air transportation system.

Another challenge is the change in aircraft used by carriers that serve small communities. Many commuter carriers have been replacing their 19-seat aircraft with 30-seat aircraft, due to the increased costs of operating the smaller planes and larger carriers’ reluctance to offer code-sharing on 19-seaters. This trend began at least 10 years ago and has continued. There are now fewer and fewer 19-seat aircraft in operation as many carriers have up-gauged to 30-seat aircraft, and, in some cases, even regional jets. As a result, many small communities that cannot support this larger size of aircraft are being left without air service. Additionally, the rise in the cost of jet fuel has made all carriers more cost-conscious and more selective in initiating new service and maintaining service where yields are low. Finally, some changes have occurred in response to the terrorist attacks of September 11, 2001. Many consumers, leisure and business, have changed their travel patterns and carriers have altered the structure of their airline services. Generally, this has meant carriers abandoning the smaller markets, as evidenced by the fact that we have received notices to suspend service at more than 100 communities since September 11. In addition, the financial condition of the network carriers has added further uncertainty for their regional code-share partner service.

The challenge that we face is one of adjusting the programs to account for these changes in an efficient and effective manner, giving appropriate and balanced recognition to the reasonable needs of the communities, the carriers, the consumers, and the taxpaying public at large. Mr. Chairman, I do not use the word “challenge” lightly. All of us—the Federal Government that manages programs affecting service at small communities, as well as the states and the communities themselves—need to reexamine the way we approach small community air service.

We at the Department of Transportation have recognized for a while now that the way the Federal Government helps small communities address air service concerns has not kept pace with the changes in the industry and the way service is now provided in this country. For that reason, we have initiated some important reevaluations of the programs that we manage. I want to share with you today what we have done and are doing to address this issue.

As you know, the Department administers two programs dealing with air service at small communities. The EAS program provides compensation to air carriers to provide air service at certain statutorily-mandated communities. The Small Community Air Service Development Program, which was established by Congress in 2000

under the AIR–21 legislation, provides Federal grants-in-aid to help small communities address their air service and airfare issues. While initially established as a pilot program, it was reauthorized through FY 2008 in Vision 100.

Essential Air Service Program

Let me first address the EAS program. The laws governing our administration of the EAS program have not changed significantly since its inception 28 years ago, notwithstanding the dramatic changes that have taken place in the airline industry. As currently structured, the EAS program acts only as a safety net for small communities receiving subsidized air service by providing threshold levels of air service. While ensuring some service, this approach does little to help communities attract self-sustaining unsubsidized air service, as evidenced by the fact that once a community receives subsidized air service it is rare for an air carrier to come in offering to provide unsubsidized air service. The goal of our proposed changes to the EAS program is to end this dependency and to give communities the ability to obtain transportation services more tailored to the communities' needs.

With this in mind, the Administration proposed very fundamental and substantial changes to the program in its last FAA reauthorization proposal, as well as in the last several budget requests. Those changes were based on our extensive experience dealing with the communities and the carriers involved with the program, recommendations from both of these constituencies, as well as studies by the Government Accountability Office (GAO) that were geared toward finding "the answer" to successful service at small communities. Two major themes came through repeatedly—the need for greater participation by communities in addressing their air service issues, and the desire for greater flexibility in doing so.

The Administration's proposed revisions to the EAS program would, for the first time since the program was established in 1978, require communities to be stakeholders in the air service they receive and thus have a vested interest in its success. With the proposed reforms, the Administration would also ensure that the small communities most in need would be able to maintain access to the national air transportation system.

Currently, a community's eligibility for inclusion in the EAS program is based only on whether it was listed on a carrier's certificate on the date the program was enacted—October 24, 1978. Once subsidized service was established, there was little incentive for active community involvement to help ensure that the service being subsidized would ultimately be successful. I can tell you anecdotally that a number of EAS communities do not even display their subsidized EAS flights on their Internet homepages, but some in the past have shown the availability of air service at nearby hubs, especially if it is low-fare service. As a result of these and other factors, EAS-subsidized flights are frequently not well patronized and our funds are not being used as efficiently or effectively as possible.

Under the Administration's proposal, communities are asked to become partners in the financing of their air services, but in exchange are given a much bigger role in determining the nature of that service. As a result, currently-eligible communities would remain eligible, but would have an array of new transportation options available to them for access to the national air transportation system. In addition to the traditional EAS schedule of two or three round trips a day to a hub, the communities would have the alternatives of charter flights, air taxi service, or ground transportation links. Regionalized air service might also be possible, where several communities could be served through one airport, but with larger aircraft or more frequent flights.

Under the Administration's proposals, community participation would be determined by the degree of its isolation from access to the national air transportation system. The most remote communities (those greater than 210 miles from the nearest large or medium hub airport) would be required to provide only 10 percent of the total EAS subsidy costs. Communities that are within a close drive of major airports would not qualify for subsidized air service, but could receive subsidies constituting 50 percent of the total costs for providing surface transportation links to that service. Specifically, communities within: (a) 100 driving miles of a large or medium hub airport, (b) 75 miles of a small hub, or (c) 50 miles of a non-hub with jet service would not qualify for subsidy for air service. All other EAS communities would have to cover 25 percent of the subsidy costs attributable to the provision of air service.

The proposed small-hub and non-hub criteria are important. Under current law, communities located within 70 miles of a large or medium hub are not eligible for subsidized air service because they have nearby, attractive alternatives. Given the growth of air services in this country since deregulation, our proposal simply recognizes that the same principle should apply for communities located near small hubs and non-hubs offering jet service.

We believe that this approach would allow the Department to provide the most isolated communities with air service that is tailored to their individual needs. Importantly, it provides communities in the program greater participation, control, and flexibility over how to meet their air service needs, and a far greater incentive to promote the success of those services.

Congress has also recognized the need for reform and made some changes in the reauthorization bill, Vision 100. One program is the Community Flexibility Pilot Program. It allows up to ten communities to receive a grant equal to 2 years' worth of subsidy in exchange for their forgoing their EAS for 10 years. The funds would have to be used for a project on the airport property or to improve the facilities for general aviation, but no communities have volunteered for that program. Another program is the Alternate Essential Air Service Program. The thrust of this program is that, instead of paying an air carrier to serve a community as we typically do under EAS, communities could apply to receive the funds directly—provided that they have a plan as to exactly how they would use the funds to the benefit of the communities' access to air service. The law gives great flexibility in that regard. For example, funds could be used for smaller aircraft but more frequent service, for on-demand air taxi service, for on-demand surface transportation, for regionalized service, or to purchase an aircraft to be used to serve the community. The Department issued an order establishing that program in the Summer of 2004, but to date no communities have applied. I cannot tell you for sure why, but my guess is that part of it is that it is just human nature to resist change. More importantly, while there have been criticisms that the EAS program does not provide optimum service, I do think that the communities have gotten very comfortable in knowing that they are guaranteed their two or three round trips a day no matter what, *i.e.,* EAS is viewed as an absolute entitlement whether the communities invest any time and effort in supporting the service or not.

With respect to the EAS program, it is important to note the continued growth in both the size and cost of the program to taxpayers over time. As a point of reference, before the terrorist attacks of September 11, the Department was paying subsidies for 75 communities (plus 32 in Alaska) and the budget had been flat at $50 million a year. We are now subsidizing service at 110 communities (plus 39 in Alaska) and our budget is $110 million for Fiscal Year 2006. Currently, there are approximately 70 communities that are eligible for EAS subsidy under the parameters of the existing statute that are served by one carrier without subsidy support. As most of these communities would be eligible for subsidy if the last carrier requested to stop service, this represents a significant potential liability. Moreover, should more eligible communities now served by multiple carriers get down to service by a single carrier, the number of communities on the verge of requiring subsidy support could increase further. That is why an approach along the lines proposed by the Administration is needed to more directly address small community air service issues and the Department is fully prepared to work with this committee in that effort.

Small Community Air Service Development Program

The Department is now in its fifth year of administering the Small Community Air Service Development Program. Under current law, the Department can make a maximum of 40 grants in each fiscal year to address air service and airfare issues, although no more than four grants each year can be in any one state. Until 2006, Congress provided $20 million in each year for this program. In 2006, the funding for the program is $10 million.

On January 20, the Department issued an order requesting that communities interested in receiving a grant under the Small Community Air Service Development Program for Fiscal Year 2006 file their applications by April 7. The Department received 75 applications seeking nearly $33 million. On August 10, the Department selected 25 communities for grant awards and we are currently working to complete the individual grant agreements with the selected communities.

Our experience to date with this program demonstrates the great interest and desire of communities to tackle their air service challenges head on and to contribute substantially to meeting those challenges. The Department has received as many as 180 applications for the opportunities available, although that level has dropped to approximately 100 applications per year as the number of grant recipients has increased. In each year, between 2002 and 2005, the Department has made at least 35 grant awards, and in Fiscal Year 2004, the Department made an additional six grant awards using unspent funds from prior years' completed or terminated grants. This year the Department issued 25 grant awards.

Following statutorily mandated selection criteria, we have made many awards to communities throughout the country and authorized a wide variety of projects, seek-

ing both to address the diverse types of problems presented and test communities' different ideas about how to solve them. Some of these projects include a new business model to provide ground handling for carriers at the airport to reduce station costs, financial assistance for a new airline to provide regional service, expansion of low-fare services, a ground service transportation alternative for access to the Nation's air transportation system, aggressive marketing and promotional campaigns to increase ridership at airports, and revenue guarantees, subsidies, and other financial incentives to reduce the risk to airlines for initiating or expanding service at a community. For the most part, these projects extend over a period of two to 4 years.

This program differs from the traditional EAS program in a number of respects. First, the funds go to the communities rather than directly to an airline serving the community. Second, the financial assistance is not limited to air carrier subsidy, but can be used for a number of other efforts to enhance a community's service, including advertising and promotional activities, studies, and ground service initiatives. Third, communities design their own solutions to their air service and airfare problems and seek financial assistance under the program to help them implement their plans. Fourth, while not a requirement for participation, most communities provide a portion of the cost of the activity receiving financial assistance.

Over the past 4 years, the Department has made 150 grant awards. Communities have been very successful in implementing their authorized grant projects. Overall, more than 90 percent of the grant recipients have implemented their authorized projects and we expect that pattern to continue.

For example, new services have been inaugurated at many communities; others have received increased frequencies or services with larger aircraft. Several communities have begun targeted and comprehensive marketing campaigns to increase use of the services at the local airport and to attract additional air carrier services. We have been monitoring the progress of all of the communities as they proceed with the implementation of their projects. However, because the majority of the projects involve activities over a two-to-four-year period, only now are some of them at the point of completion.

One test of success will be if the improvements achieved are sustained when the grant projects have concluded. As more grant awards are completed, we will review the results of those grants to determine if they can offer greater insight into helping smaller communities with their air service challenges. An important goal of the Small Community Program is to find solutions to air service and airfare problems that could serve as models for other small communities.

As you know, the GAO recently concluded a review of the Small Community Program. They too have recognized that it is difficult to draw any firm conclusions as to the effectiveness of the Small Community Program in helping communities address their service issues because many grant projects are still in process. Of the grant projects that had been completed, the GAO concluded that the results were mixed because not all of the grants resulted in improvements that were achieved and sustained after the grant funding was exhausted.

The GAO noted that nearly 80 grants were scheduled to be completed by the end of this year and they recommended that the Department review the results of these grants before the program is considered for reauthorization beyond 2008. The Department concurred with GAO's recommendation and indicated that it would conduct such a review before the reauthorization process. In conjunction with that analysis, we hope to learn not only from the projects that succeeded, but also from those that did not. Both will inform our review of the program and the guidance that we may be able to develop for the benefit of small communities overall from a larger group of completed grants under this relatively new program.

The Federal Government, however, is only one piece of the equation. States and communities will also need to review their air service in the context of the changed industry structure and service patterns to seek fresh, new solutions to maximize their air service potential, including regional and intermodal approaches and expansion of public-private partnerships to meet these challenges.

In closing, Mr. Chairman, let me reaffirm the Department's commitment to implementing the DOT's small community air service programs in the best and most efficient manner. We look forward to working with you and the members of this Subcommittee and the full Committee as we continue to work toward these objectives. Thank you again. This concludes my prepared statement. I will be happy to answer any of your questions.

Senator BURNS. Thank you very much, Mr. Reynolds.

Mr. Dillingham, welcome back. We appreciate your coming this morning, and we look forward to your testimony. Thank you.

STATEMENT OF GERALD L. DILLINGHAM, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. DILLINGHAM. Thank you, Chairman Burns, Senator Rockefeller, and Senator Lott.

My testimony today will discuss three issues: first, the development and impact of the Essential Air Service program; second, our review of the Small Community Air Service Development Program; and, third, I will offer some options that could possibly lead to more effective use of scarce Federal resources for both programs.

With regard to the development and impact of the EAS program, our studies have shown that over the last decade a growing number of communities have received subsidies under the EAS program. In Fiscal Year 1997, there were 95 communities receiving subsidies. There are 159 communities receiving subsidies this fiscal year. During this time, the Federal funding for the program has also risen by more than four-fold, nearly $26 million in Fiscal Year 1997, to just over $109 million this fiscal year. In addition, we found that over time the average subsidy per community and per passenger has increased substantially. The average subsidy for an EAS community was about $834,000 in Fiscal Year 2006, and the subsidy per passenger ranged from a low of about $12 to a high of over $600.

The principal impact of the EAS program has been consistent with its legislative objective of providing Federal subsidies to eligible communities to ensure that they continue to have access to air services. However, based on passenger traffic, it could be argued that the program is not providing the quality of services or fares to attract local passenger traffic. Our work further suggests that if the subsidies were removed, air services would end at many of these communities.

With regard to the status of the Small Community Program, as Mr. Reynolds has pointed out, during the time the program has been operating, there have been over 150 grants awarded. To date, 56 grants, or about 31 percent of the grants, have been completed. Our review of the program, which was completed late last year, was based on 23 grants that were completed at that time. Therefore, our review does not provide a comprehensive evaluation of the program, but a snapshot in time.

For those 23 completed grants, we found that the majority of those communities—that is, 19 of the 23—have reported service or fare improvements, as well as an increase in the number of enplanements. Charleston, West Virginia, provides an example of a successful project, where their grant enabled Charleston to add a new carrier and a new nonstop service to Houston. Some of the other community initiatives included offering revenue guarantees to airlines, marketing activities, and taking over ground station operations.

Mr. Chairman, another important consideration in evaluating a grants program is what happens after the grant money goes away. For the grants we reviewed, we found that after the grant was

completed, the majority of communities reported that the improvement was still in place. And those improvements that remained after the completion of the grant, the majority of them were self-sustaining.

Mr. Chairman, although the results that we are reporting for the Small Community Program are generally positive, let me reiterate that these results are not necessarily representative of the total program.

Now I want to turn to a discussion of actions and options to address the more cost-effective use of scarce Federal resources for these programs.

Our written testimony provides some details on legislative options that could make the EAS program more cost effective. These options include targeting subsidized service to the more remote communities; two, better matching capacity with community use; three, consolidating service to multiple communities and to regional airports; and, finally, changing the form of Federal assistance from carrier subsidies to local grants.

Mr. Chairman, Senator Rockefeller, I want to point out that although these options may make EAS more cost-effective, they could also result in reduced services to some areas.

In looking at the Small Community Program, we've said that when enough grants have been completed and DOT has evaluated them, Congress will be in a better position to determine if the air service gains that are made are worth the overall cost of the program. This kind of information can be very useful when Congress considers the reauthorization of this program in 2008, and could also result in identifying lessons learned from successful projects.

In the final analysis, the Congress is faced with many difficult choices as it tries to help maintain and improve air services to small communities, especially given the very large fiscal challenges the Nation faces as a whole. I think it is important to recognize that for many small communities, air service is not, and might never be, commercially viable. Furthermore, in many cases, such as in the State of Montana, there are limited alternative means for small-community residents to connect to the national air transportation system. And in States like Alaska and Hawaii, where other modes of transportation are somewhat limited, continued subsidies will likely be needed to maintain that connection.

It will be the Congress's weighing of priorities that will ultimately decide whether or not these air-service programs will continue in their current form or some type of modified form, or whether other less costly options will be pursued.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Dillingham follows:]

PREPARED STATEMENT OF GERALD L. DILLINGHAM, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to testify today on issues related to the Federal approach to providing air service to small and under-served communities. Over the last decade, significant changes have occurred in the airline industry that have affected service to small communities. Service to small communities decreased as a result of the weak financial condition of the airline industry that was exacerbated by the events of September 11, 2001. Some network carriers are still facing chal-

lenging financial conditions which can negatively affect small community air service.[1] For example, small communities may become cost-cutting targets because they are often the carrier's least profitable operation. This, as well as other changes, have challenged small communities to obtain adequate commercial air service at reasonable prices.[2]

Two key Federal programs help support air service to small communities—the Essential Air Service (EAS) program and the Small Community Air Service Development Program (SCASDP).[3] EAS, established after airline deregulation in 1978, is designed to ensure that small communities that received scheduled passenger air service before deregulation continue to have access to the Nation's air transportation system. In Fiscal Year 2006, Congress appropriated about $109 million to the Department of Transportation (DOT) for EAS. For Fiscal Year 2007, the administration requested that $50 million be allocated for the program and paid for by overflight fees,[4] while both the House and Senate Appropriations Committees are proposing $117 million for the program. Congress established SCASDP in 2000 and has appropriated $20 million annually from 2002 through 2005 for DOT to award up to 40 grants each year to communities that have demonstrated air-service deficiencies or higher-than-average fares. However, in Fiscal Year 2005, DOT transferred $5 million of these funds from SCASDP to EAS.[5] For Fiscal Year 2006, Congress authorized $10 million. For Fiscal Year 2007, the administration proposed no funding for SCASDP while the House and Senate Appropriations Committees are proposing $20 million and $10 million, respectively. In addition, we have reported that it was too early to assess the effectiveness of SCASDP and have raised questions about the current structure of EAS.

While the airline industry has been facing fiscal challenges, the Federal Government's financial condition and long-term fiscal outlook also deteriorated. We have reported on the Nation's long-term fiscal imbalances and the need for a fundamental and periodic reexamination of the base of government, ultimately covering discretionary and mandatory programs as well as the revenue side of the budget.[6] In light of these challenges, we have identified some options for reforming EAS and recommended that DOT evaluate SCASDP.

My testimony today will discuss: (1) the development and impact of EAS, (2) the status of SCASDP, and (3) options for reforming EAS and evaluating SCASDP. My statement is based primarily on the body of research that we have conducted related to these programs, program updates, and recent interviews with (and data from) key stakeholders. We obtained information on the status of projects from the Office of the Secretary (OST). Based on assessments conducted during previous reviews, we concluded that the data are reliable for the purposes of this report. *Appendix V* contains a list of our related testimonies and reports. We conducted our work on EAS from March through December 2002, and our work on SCASDP from September 2004 through October 2005, in accordance with generally accepted government auditing standards.

In summary:

- In recent years, a growing number of communities have received subsidies under EAS—expanding from 95 communities in Fiscal Year 1997 to 152 in Fiscal Year 2006. Similarly, funding for EAS has risen more than four-fold over this 10-year period—from $25.9 million in Fiscal Year 1997 to $109.4 million in Fiscal Year 2006. In addition, EAS funds were used to subsidize about 1 million passenger enplanements in 2004—about 0.15 percent of the Nation's 706 million annual passenger enplanements.[7] It is possible that air service might end at many of these communities, if these subsidies were removed.
- Our recent review of SCASDP found that the number of grant applications was declining, grantees were pursuing a variety of goals and strategies for supporting air service, and completed grants had mixed results. Specifically, we found that the number of applications for SCASDP has declined—from 179 in 2002 to 75 in 2006. We also found that the goals grantees are pursuing include trying to add flights and destinations, or trying to obtain lower fares. The different strategies grantees are employing to improve air service in their communities include offering subsidies or revenue guarantees to airlines, marketing, hiring personnel, and conducting studies. Finally, although we could not assess the effectiveness of the program, since few projects—23 of 157—had been completed at the time of our review, we found the results of the completed projects were mixed. Of the 23 projects, 11 had implemented a self-sustaining improvement to air service, while the remaining 12 had not.
- To ensure the effective use of scarce resources, these programs need to be examined and options for program improvement need to be addressed. We have previously reported on some options for changing EAS to potentially make it more

cost-effective. These options include: (1) targeting subsidized service to more remote communities, (2) better matching capacity with community use, (3) consolidating service to multiple communities into regional airports, and (4) changing the form of the Federal assistance from carrier subsidies to local grants. These changes require legislative action. Although these options might make EAS more cost-effective, they could also reduce service to some areas. In 2003, the Vision 100—Century of Aviation Reauthorization Act, (Vision 100) provided for several alternative programs for EAS communities. However, these programs have not progressed due, in part, to a lack of response from EAS communities.

Regarding SCASDP, as we recommended, DOT plans to conduct a comprehensive evaluation of completed projects after Fiscal Year 2006. The results of such an evaluation will be useful when Congress considers the reauthorization of this program in 2008 and could result in identifying "lessons learned" from successful projects. These lessons could be shared with other small communities that are trying to improve air service, and, if needed, to reform and refocus the program.

Background

Before I discuss these issues in detail, let me sketch the background of air service to small communities and these programs. Air service to many small communities has declined in recent years, particularly after the September 11, 2001 attacks. As of 2005, scheduled departures at small-, medium-, and large-hub airports had largely returned to 2000 levels. However, departures from nonhub airports continued to decline—the number of departures declined 17 percent at nonhub airports between July 2000 and July 2005. Small-hub airports actually had more scheduled departures in July 2005 than in July 2000, a fact that clearly distinguishes them from nonhub airports.

Several factors may help explain why some small communities, especially nonhubs, face relatively limited air service. First, small communities can become cost-cutting targets of air carriers because they are often a carrier's least profitable operation. Consequently, many network carriers have cut service to small communities and regional carriers now operate at many small communities where the network carriers have withdrawn.[8] Second, the "Commuter Rule" that FAA enacted in 1995 brought small commuter aircraft under the same safety standards as larger aircraft—a change that made it more difficult to economically operate smaller aircraft, such as 19-seat turboprops.[9] For example, the Commuter Rule required commuter air carriers who flew aircraft equipped with 10 or more seats to improve ground deicing programs and carry additional passenger safety equipment. Additionally, the 2001 Aviation and Transportation Security Act instituted the same security requirements for screening passengers at smaller airports as it did for larger airports, sometimes making travel from small airports less convenient than it had been.[10] Third, regional carriers had reduced the use of turboprops in favor of regional jets, which had a negative effect on small communities that have not generated the passenger levels needed to support regional jet service. Finally, many small communities experience passenger "leakage"—that is, passengers choosing to drive longer distances to larger airports instead of using closer small airports. Low-cost carriers have generally avoided flying to small communities but have offered low fares that encourage passengers to drive longer distances to take advantage of them.[11]

Mr. Chairman, as you know, Congress established EAS as part of the Airline Deregulation Act of 1978 to help areas that face limited service. The Act guaranteed that communities served by air carriers before deregulation would continue to receive a certain level of scheduled air service.[12] In general, the act guaranteed continued service by authorizing DOT to require carriers to continue providing service at these communities. If an air carrier could not continue that service without incurring a loss, DOT could then use EAS funds to award that carrier a subsidy.[13] Under the Airline Deregulation Act, EAS was scheduled to sunset, or end, after 10 years. In 1987, Congress extended the program for another 10 years, and in 1998, it eliminated the sunset provision, thereby permanently authorizing EAS.

Funding for EAS comes from a combination of permanent and annual appropriations. The Federal Aviation Reauthorization Act of 1996 (P.L. 104–264) permanently appropriated the first $50 million of such funding—for EAS and safety projects at rural airports—from the collection of overflight fees. Congress can appropriate additional funds from the general fund on an annual basis.

To be eligible for this subsidized service, communities must meet three general requirements. They: (1) must have received scheduled commercial passenger service as of October 1978, (2) may be no closer than 70 highway miles to a medium- or large-hub airport, and (3) must require a subsidy of less than $200 per person (un-

less the community is more than 210 highway miles from the nearest medium-or large-hub airport, in which case no average per-passenger dollar limit applies).[14] Federal law also defines the service that subsidized communities are to receive under EAS.[15] For example, carriers providing EAS flights are required to use aircraft with at least 15 seats unless the community seeks a waiver. In addition, flights are to occur at "reasonable times" and at prices that are "not excessive." EAS operations to communities in Alaska are subject to different requirements (*e.g.,* carriers may use smaller aircraft).

Air carriers apply directly to DOT for EAS subsidies. Air carriers set the subsidy application process in motion when they file a 90-day notice of intent to suspend or terminate service. If no air carrier is willing to or able to profitably provide replacement air service without a subsidy, DOT solicits proposals from carriers who are willing to provide service with a subsidy. DOT requires that air carriers submit historical and projected financial data, such as projected operating expenses and revenues, sufficient to support a subsidy calculation. DOT then reviews these data in light of the aviation industry's pricing structure, the size of aircraft required, the amount of service required, and the number of projected passengers who would use this service in the community.[16] Finally, DOT selects a carrier and sets a subsidy amount to cover the difference between the carrier's projected cost of operation and its expected passenger revenues, while providing the carrier with a profit element equal to 5 percent of total operating expenses, according to statute.[17]

Turning now to SCASDP, Congress authorized SCASDP as a pilot program in the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR–21),[18] to help small communities enhance their air service. AIR–21 authorized the program for Fiscal Years 2002 and 2003, and subsequent legislation [19] reauthorized the program through Fiscal Year 2008 and eliminated the "pilot" status of the program.

The Office of Aviation Analysis in DOT's Office of the Secretary is responsible for administering the program. The law establishing SCASDP allows DOT considerable flexibility in implementing the program and selecting projects to be funded. The law defines basic eligibility criteria and statutory priority factors, but meeting a given number of priority factors does not automatically mean DOT will select a project. DOT also considers many other relevant factors in making decisions on projects, and the final selection of projects is at the discretion of the Secretary of Transportation.[20] (See *App. I* for a list of the factors used in DOT selections.)

SCASDP grants may be made to single communities or a consortium of communities, although no more than four grants each year may be in the same state. Consortiums are considered one project for the purpose of this program. Inclusion of small hubs for eligibility means that some relatively large airports qualify for this program. For example, Buffalo Niagara International Airport in Buffalo, New York; and Norfolk International Airport in Norfolk, Virginia, are eligible for the program; these airports enplaned over 2.4 million and over 1.9 million passengers in 2005, respectively. In contrast, small nonhub airports, such as those in Moab, Utah (with about 2,600 enplanements) or Owensboro, Kentucky (with about 3,600 enplanements) are also eligible. SCASDP grants are also available in the 50 states, the District of Columbia, Puerto Rico, and U.S. territories and possessions. As shown in *Appendix II,* DOT's awards have been geographically spread out—covering all states except Delaware, Hawaii, Maryland, New Jersey, and Rhode Island. To date, no communities in Delaware or Rhode Island have applied for a grant. *Appendix III* includes information on all SCASDP grants awarded as of August 31, 2006.

Number of Airports and Amount of EAS Subsidies Has Been Growing

Mr. Chairman, demand for EAS subsidies has been growing over the past 10 years, as has the amount of funds appropriated for the program. As shown in *Table 1,* for Fiscal Year 2006, EAS is providing subsidies to air carriers to serve 154 communities—an increase of 57 communities over the 1997 low point.[21] The funding for EAS has also grown from $25.9 million in 1997 to $109.4 million in 2006. This amounts to an average of about $720,000 per EAS community in Fiscal Year 2006. *Appendix II* includes a map showing the locations of current EAS communities and *Appendix IV* lists EAS communities and their current subsidy amounts.

Table 1: EAS Program Appropriations and Communities Served, Fiscal Years 1992–2006

Fiscal year	Number of communities	Total EAS appropriations (in millions)
1992	130	$38.6
1993	126	38.6
1994	112	33.4
1995	107	33.4
1996	97	22.6
1997	95	25.9
1998	101	50.0
1999	100	50.0
2000	106	50.0
2001	115	50.0
2002	123	113.0
2003	126	101.8
2004	140	101.7
2005	146	101.6
2006	154	109.4

Source: DOT

In addition, in recent years, the number of communities and states receiving EAS funding has increased. Since 1998, when a $50 million funding level was established, eight additional states now have EAS communities. These states include Alabama, Georgia, Kentucky, Maryland, Mississippi, Oregon, Tennessee, and Virginia. Excluding Alaska, where different program rules apply, four states now have had significant increases in the total number of communities served by EAS, compared to 1998. The number of EAS communities in Pennsylvania increased by five, West Virginia and Wyoming increased by four, and New York increased by three. These states are now among the largest participants in the program, in terms of the number of communities served.

In 2004, slightly more than 1 million passengers enplaned at airports that received EAS-subsidized service—about 0.15 percent of the more than 706 million passenger enplanements in the United States that year.[22] As of May 1, 2006, 13 regional air carriers served the subsidized communities in the continental United States, and 15 served those in Alaska, Hawaii, and Puerto Rico. The carriers serving the communities in the continental United States typically used turboprop aircraft seating 19 passengers, whereas in Alaska, Hawaii, and Puerto Rico, the most commonly used aircraft seated 4 to 9 passengers.

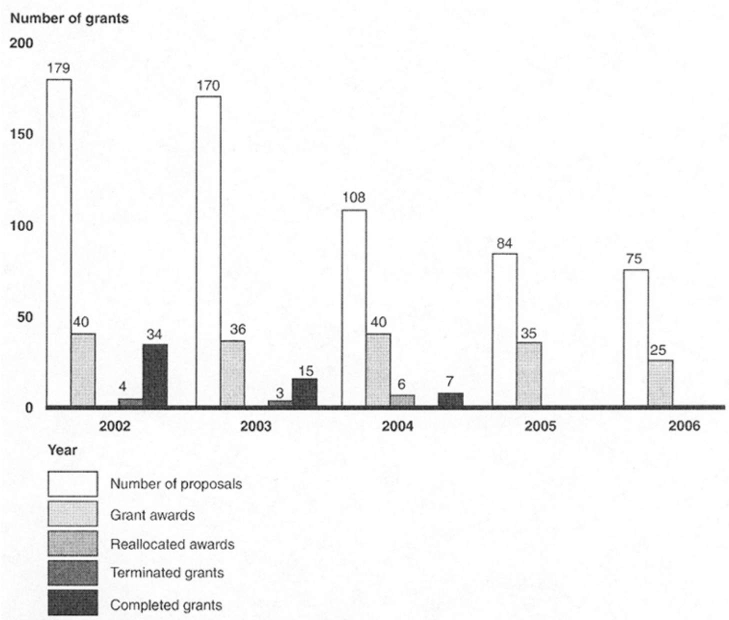
If EAS subsidies were removed, air service may end at many small communities. EAS subsidies have helped communities that were served by air carriers before deregulation continue to receive scheduled air service. Since air carriers have to show financial data to support a subsidy calculation, it is likely that if the subsidy is no longer available commercial air service would also end. Furthermore, according to a DOT official, once a community receives subsidized air service it is rare for an air carrier to offer to provide unsubsidized air service. Finally, in previous work, we reported that subsidies paid directly to air carriers have not provided an effective transportation solution for passengers in many small communities.[23]

The Small Community Grant Program Has Had Mixed Results

Mr. Chairman, our previous work was not able to evaluate the overall effectiveness of SCASDP; however, we found that SCASDP grantees pursued several goals and strategies to improve air service, and that the projects have obtained mixed results. In addition, the number of applications for SCASDP has declined each year.

As shown in *Figure 1,* in 2002 (the first year SCASDP was funded) DOT received 179 applications for grants; and by 2006 the number of applications had declined to 75. DOT officials said that this decline was, in part, a consequence of several factors, including: (1) many eligible airport communities had received a grant and were still implementing projects at the time; (2) the airport community as a whole was coming to understand the importance DOT places on a fulfilling the local contribution commitment part of the grant proposal; and (3) legislative changes in 2003 that prohibited communities or consortiums from receiving more than one grant for the same project, and that established the timely use of funds as a priority factor in awarding grants.[24] There have been 182 grant awards made in the 5 years of the program. Of these, 56 grants are now completed—34 from 2002, 15 from 2003, and seven from 2004.[25] Finally, as of August 31, 2006, DOT had terminated seven grants it initially awarded.[26]

Figure 1: SCASDP Grant Proposals, Awards, Terminations, and Completions, 2002 – 2006

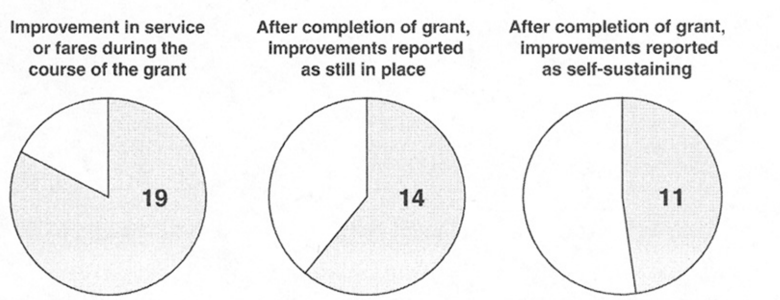


Source: GAO analysis of DOT data.

Note: DOT granted 6 grants in 2004, from reallocated program funds.

Although at the time of our review it was too soon to determine the overall effectiveness of the program, our review of the 23 projects completed by September 30, 2005, found mixed results. The kinds of improvements in service that resulted from the grants included adding an additional air carrier, destination, or flights; or changing the type of aircraft serving the community. In terms of numbers, airport officials reported that 19 of the 23 grants resulted in service or fare improvements during the life of the grant. In addition, during the course of the grant, enplanements rose at 19 of the 23 airports. However, after the 23 SCASDP grants were completed, 11 grants resulted in improvements that were self-sustaining. Three additional improvements were still in place, although not self-sustaining; thus 14 improvements were in place after the grants were completed. (See *Fig. 2.*)

Figure 2: Air Service Improvement during the Course of 23 Grants and after Project Completion

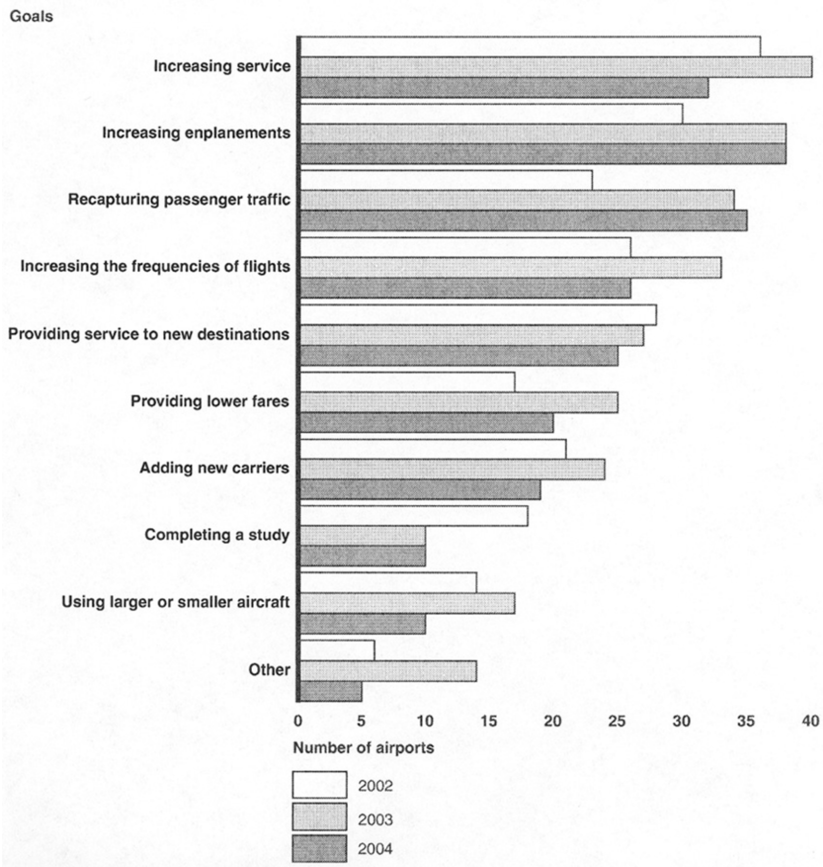


Source: GAO.

Charleston, West Virginia provides an example of a successful project. With the aid of a SCASDP grant, Charleston was able to add a new carrier and new nonstop service to a major market, Houston. At the time of our review, and after the grant was completed, this service was continuing at the level the grant provided.

Finally, for SCASDP grants awarded from 2002 though 2004, we surveyed airport officials to identify the types of project goals they had for their grants. We found that grantees had identified a variety of project goals to improve air service to their community. These goals included adding flights, airlines, and destinations; lowering fares; upgrading the aircraft serving the community; obtaining better data for planning and marketing air service; increasing enplanements; and curbing the loss of passengers to other airports. (See *Fig. 3* for the number and types of project goals identified by airport directors.)

Figure 3: Project Goals as Identified by Airport Directors for Grants Awarded 2002 - 2004



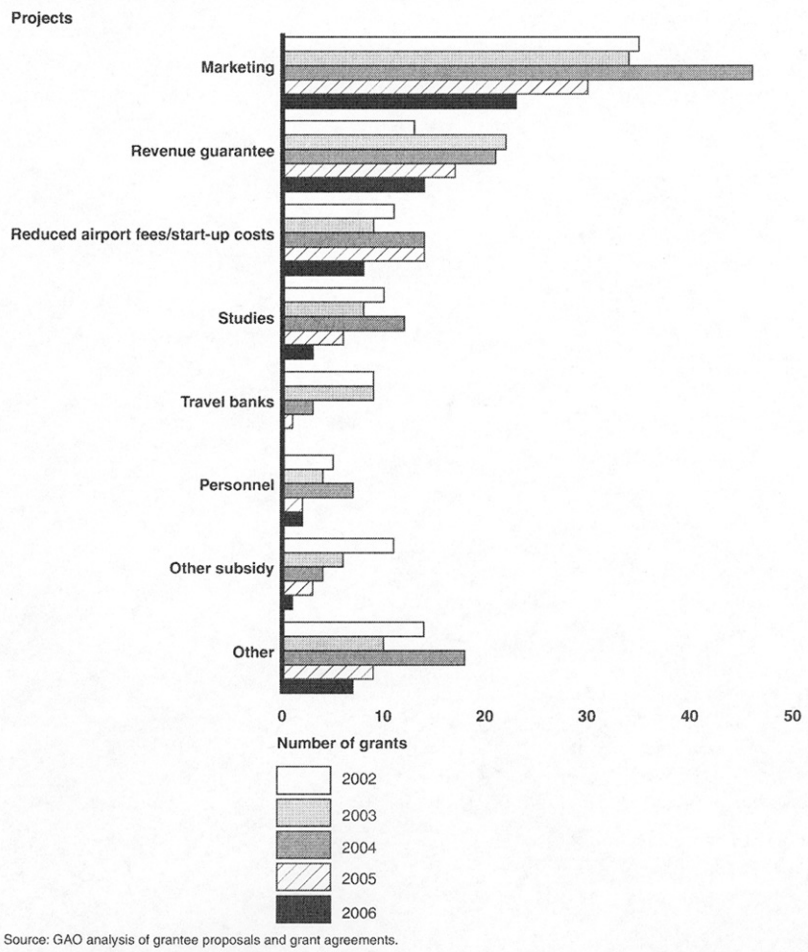
Source: GAO survey of grantee airport directors.

Note: The number of airport directors surveyed may exceed the number of grants in a year because grants are sometimes awarded to consortiums of airports. We surveyed all grantee airports.

To achieve these goals, grantees have used many strategies, including subsidies and revenue guarantees to the airlines, marketing, hiring personnel and consultants, and establishing travel banks in which a community guarantees to buy a certain number of tickets. (See *Fig. 4.*) In addition, grantees have subsidized the start-up of an airline, taken over ground station operations for an airline, and subsidized a bus to transport passengers from their airport to a hub airport. Incorporating

marketing as part of the project was the most common strategy used by airports. Some airline officials said that marketing efforts are important for the success of the projects. Airline officials also told us that projects that provide direct benefits to an airline, such as revenue guarantees and financial subsidies, have the greatest chance of success. According to these officials, such projects allow the airline to test the real market for air service in a community without enduring the typical financial losses that occur when new air service is introduced. They further noted that, in the current aviation economic environment, carriers cannot afford to sustain losses while they build-up passenger demand in a market. The outcomes of the grants may be affected by broader industry factors that are independent of the grant itself, such as a decision on the part of an airline to reduce the number of flights at a hub.

Figure 4: Strategies Included in Grant Projects



Source: GAO analysis of grantee proposals and grant agreements.

Note: Since grant agreements were not available at the time of this analysis, 2006 figures are based solely on proposals.

Options Exist for Reforming EAS and Evaluating SCASDP

Mr. Chairman, let me now turn to a discussion of options both for the reform of EAS and the evaluation of SCASDP. I raise these options, in part, because they link to our previous report on the challenges facing the Federal Government in the 21st

century, which notes that the Federal Government's long-term fiscal imbalance presents enormous challenges to the Nation's ability to respond to emerging forces reshaping American society, the United States' place in the world, and the future role of the Federal Government.[27] In our previous report, we call for a more fundamental and periodic reexamination of the base of government, ultimately covering discretionary and mandatory programs as well as the revenue side of the budget. In light of these challenges, Congress may wish to weigh options for reforming EAS and obtaining additional information about SCASDP's effectiveness—information that could be obtained if DOT follows our recommendation to evaluate the program's effectiveness once more grant projects have been completed.

Examine Options for Enhancing EAS

In previous work, we have identified options for enhancing the effectiveness of EAS and controlling cost increases. These options include targeting subsidized service on more remote communities than is currently the case, improving the matching of capacity with community use, consolidating service to multiple communities into regional airports, and changing the form of Federal assistance from carrier subsidies to local grants; all of these options would require legislative changes. Several of these options formed the basis for reforms passed as part of Vision 100. For various reasons these pilot programs have not progressed, so it is premature to assess their impact. Let me now briefly discuss each option, stressing at the outset that each presents potential negative, as well as positive, effects. The positive effects might include lowered Federal costs, increased passenger traffic at subsidized communities, and enhanced community choice of transportation options. Potential negative effects might include increased passenger inconvenience and an adverse effect on local economies that may lose scheduled airline service.

Targeting Subsidized Service to More Remote Communities

The first option would be to target subsidized service to more remote communities. This would mean increasing the highway distance criteria between EAS-eligible communities and the nearest qualifying airport, and expanding the definition of qualifying nearby airports to include small hubs. Currently, to be eligible for EAS-subsidized service, a community must be more than 70 highway miles from the nearest medium- or large-hub airport. We found that, if the distance criterion was increased to 125 highway miles and the qualifying airports were expanded to include small-hub airport with jet service, 55 EAS-subsidized communities would no longer qualify for subsidies—and travelers at those communities would need to drive to the nearby larger airport to access air service.[28]

Limiting subsidized service to more remote communities could potentially save Federal subsidies. For example, we found that about $24 million annually could be saved if service were terminated at 30 EAS airports that were within 125 miles of medium- or large-hub airports. This estimate assumed that the total subsidies in effect in 2006 at the communities that might lose their eligibility would not be obligated to other communities and that those amounts would not change over time. On the other hand, the passengers who now use subsidized service at such terminated airports would be inconvenienced because of the increased driving required to access air service at the nearest hub airport. In addition, implementing this option could potentially negatively impact the economy of the affected communities. For instance, officials from some communities, such as Brookings, South Dakota, told us that they are able to attract and retain local businesses because of several factors relating to the quality-of-life there—with one important factor being its scheduled air service.

Better Matching Capacity With Community Use

Another option is to better match capacity with community use. Our past analysis of passenger enplanement data indicated that relatively few passengers fly in many EAS markets, and that, on average, most EAS flights operate with aircraft that are largely empty. To better match capacity with community use, air carriers could reduce unused capacity—either by using smaller aircraft or by reducing the number of flights. Carriers could use smaller aircraft. For example, we reported that from 1995 to 2002, total passenger traffic dropped at 9 of 24 EAS communities where carriers added flight frequencies.

Better matching capacity with community use could save Federal subsidies. For instance, reducing the number of required daily subsidized departures could save Federal subsidies by reducing carrier costs in some locations. Federal subsidies could also be lowered at communities where carriers used smaller—and hence less costly—aircraft. On the other hand, there are a number of potential disadvantages. For example, passenger acceptance is uncertain. Representatives from some communities, like Beckley and Bluefield, West Virginia, told us that passengers who are

already somewhat reluctant to fly on 19-seat turboprops would be even less willing to fly on smaller aircraft. Such negative passenger reaction may cause more people to drive to larger airports—or simply drive to their destinations. Additionally, the loss of some daily departures at certain communities would likely further inconvenience some passengers. Last, reduced capacity may have a negative impact on the economy of the affected community.[29]

Consolidating Subsidized Service Provided to Multiple Communities Into Service at Regional Airports

Another option is to consolidate subsidized service at multiple communities into service at regional airports. As of July 1, 2002, 21 EAS subsidized communities were located within 70 highway miles of at least one other subsidized community. We reported that if subsidized service to each of these communities were regionalized, 10 regional airports could serve those 21 communities.

Regionalizing service to some communities could generate Federal savings. However, those savings may be marginal, because the total costs to serve a single regional airport may be only slightly less than the cost to serve two or three neighboring airports. For example, in 2002, DOT provided $1.9 million in annual subsidies to Air Midwest, Inc., to serve Ogdensburg and Massena, New York, with stops at another EAS-subsidized community (Watertown, New York) before arriving at its final destination of Pittsburgh, Pennsylvania. According to an official with Air Midwest, the marginal cost of operating the flight segments to Massena and Ogdensburg are small in relation to the cost of operating the flight from Pittsburgh to Watertown. Another potential positive effect is that passenger levels at the proposed regional airports could grow because the airline(s) would be drawing from a larger geographic area, which could prompt the airline(s) to provide better service (*i.e.,* larger aircraft or more frequent departures).

There are also a number of disadvantages to implementing this option. First, local passengers would be inconvenienced, since they would likely have to drive longer distances to obtain local air service. Moreover, the passenger response to regionalizing local air service is unknown. Passengers faced with driving longer distances may decide that driving to an altogether different airport is worthwhile, if it offers better service and air fares. Additionally, as with other options, the potential impact on the economy of the affected communities is unknown. Regionalizing air service has sometimes proven controversial at the local level, in part because regionalizing air service would require some communities to give up their own local service for the hypothetical benefits of a less convenient regional facility. Even in situations where one airport is larger and better equipped than others (*e.g.,* where one airport has longer runways, a superior terminal facility, and better safety equipment onsite), it is likely to be difficult for the other communities to recognize and accept surrendering their local control and benefits.

Changing Carrier Subsidies to Local Grants

Another option is to change carrier subsidies into local grants. We have noted that local grants could enable communities to match their transportation needs with individually tailored transportation options to connect them to the national air service system. As we previously discussed, DOT provides grants to help small communities to enhance their air service via SCASDP.

Our work on SCASDP identified some positive aspects of the program that could be beneficial for EAS communities. First, in order for communities to receive a Small Community grant, they had to develop a proposal that was directed at improving air service locally. In our discussion with some of these communities, it was noted that this required them to take a closer look at their air service and better understand the market they serve—a benefit that they did not foresee. In addition, in one case developing the proposal caused the airport to build a stronger relationship with the community. SCASDP also allows for flexibility in the strategy a local community can choose to improve air service, recognizing that local facts and circumstances affect the chance of a successful outcome. In contrast, EAS has one approach—a subsidy to an air carrier.

However, there are also differences between the two programs that make the grant approach problematic for some EAS communities; these differences should be considered. First, because the grants are provided on a one-time basis, their purpose is to create self-sustaining air service improvements. The grant approach is therefore best applicable where a viable air service market can be developed. This could be difficult for EAS communities to achieve because, currently, the service they receive is not profitable unless there is a subsidy. While some EAS communities might be able to transition to self-sustaining air service through use of one of the grants, for some communities this would not be the case. In addition, the grant program

normally includes a local cash match, which may be difficult for some EAS communities to provide. This could systematically eliminate the poorest communities, unless other sources of funds—such as state support or local industry support—could be found.

Vision 100 Small Community Programs Have Not Progressed

In Vision 100, Congress authorized several programs relevant to small communities. These programs have not progressed for various reasons. The Alternate Essential Air Service Pilot Program allows the Secretary of Transportation to provide assistance directly to a community, rather than paying compensation to an air carrier. Under the pilot program, communities could provide assistance to air carriers using smaller aircraft, fund on-demand air taxi service, provide transportation services to and from several EAS communities to a single regional airport or other transportation center, and purchase aircraft. Vision 100 also authorized the Community Flexibility Pilot Program, which requires the Secretary of Transportation to establish a program for up to 10 communities that agree to forgo their EAS subsidy for 10 years in exchange for a grant twice the amount of the EAS subsidy. The funds may be used to improve airport facilities. (The grants can be used for things other than general aviation.) DOT has solicited proposals for projects in both of these programs. However, according to a DOT official, no communities expressed any interest in participating in these programs. Finally, the EAS Local Participation Program allows the Secretary of Transportation to select no more than 10 designated EAS communities within 100 miles, by road, of a small hub (and within the contiguous states) to assume 10 percent of their EAS subsidy costs for a 4-year period. However, Congress has prohibited DOT from obligating or expending any funds to implement this program since Vision 100 was enacted.

Evaluate the Effectiveness of SCASDP Before Reauthorization

We recently recommended that DOT examine the effectiveness of this program when more projects are complete.[30] Such an evaluation would provide DOT and Congress with information about whether additional or improved air service was not only obtained, but whether it continues after the grant support has ended. This may be particularly important since our work on the limited number of completed projects found that, 11 of 23 grantees reported that the improvements were self-sustaining after the grant was complete. In addition, our prior work on the air service to small communities found that once financial incentives are removed, additional air service may be difficult to maintain. Since our report, an additional 33 grants have been completed and DOT's plans to examine the results from these completed grants should provide a clearer and more complete picture of the value of this program. Any improved service achieved from this program could then be weighed against the cost to achieve those gains. This information will be important as Congress considers the reauthorization of this program in 2008.

In addition to the benefit of providing Congress with information upon which to evaluate the merits of SCASDP, the evaluation would likely have additional benefits. In conducting this evaluation, DOT could potentially find that certain strategies the communities used were more effective than others. For example, during our work, we found some opposing views on the usefulness of travel banks[31] and some marketing strategies as incentives for attracting improved service. As DOT officials identify strategies that have been effective in starting self-sustaining improvements in air service, they could share this information with other small community airports and, perhaps, consider such factors in its grant award process. In addition, DOT might find some best practices and could develop some lessons learned from which all small community airports could benefit. For example, one airport used the approach of assuming airline ground operations such as baggage handling and staffing ticket counters. This approach served to maintain airline service of one airline and to attract additional service from another airline. Sharing information on approaches like this that worked (and approaches that did not) may help other small communities improve their air service, perhaps even without Federal assistance.

In conclusion, Mr. Chairman, Congress is faced with many difficult choices as it tries to help improve air service to small communities, especially given the fiscal challenges the Nation faces. Regarding EAS, I think it is important to recognize that for many of the communities, air service is not—and might never be—commercially-viable and there are limited alternative transportation means for nearby residents to connect to the national air system. In these cases, continued subsidies will be needed to maintain that capability. In some other cases, current EAS communities are within reasonable driving distances to alternative airports that can provide that connection to the air system. It will be Congress' weighing of priorities that will ultimately decide whether this service will continue or whether other, less

costly options will be pursued. In looking at SCASDP, I would emphasize that we have seen some instances in which the grant funds provided additional service, and some in which the funds did not work. When enough experience has been gained with this program, the Congress will be in a position to determine if the air service gains that are made are worth the overall cost of the program. I would be pleased to answer any questions that you or other Members of the Subcommittee may have at this time.

Appendix I: Additional Department of Transportation Selection Factors for SCASDP Grants

SERVICE-RELATED FACTORS

1. How many carriers are serving the community?
2. How many destinations are served?
3. What is the frequency of flights?
4. What size aircraft service the community?
5. Has the level of service been increasing or decreasing over the past 3 years?
6. Have enplanements been increasing or decreasing over the past 3 years?
7. Is the Metropolitan Statistical Area population increasing or decreasing?
8. Is the per-capita income increasing or decreasing?
9. Are the number of businesses in the area increasing or decreasing?
10. What is the proximity to larger air service centers?
11. What is the quality of road access to other air service centers?
12. Does the community lack service in identified top origin and destination markets?
13. Is the proposal designed to provide:

- First air service;
- Second carrier service;
- New destinations;
- Larger aircraft; or
- More frequent flights?

14. If this is an air service project, has the community selected a carrier that is willing and committed to serve?
15. If this is an air service project, does the community have a targeted carrier that would serve?

Source: GAO table based on DOT information.

PROJECT-RELATED FACTORS

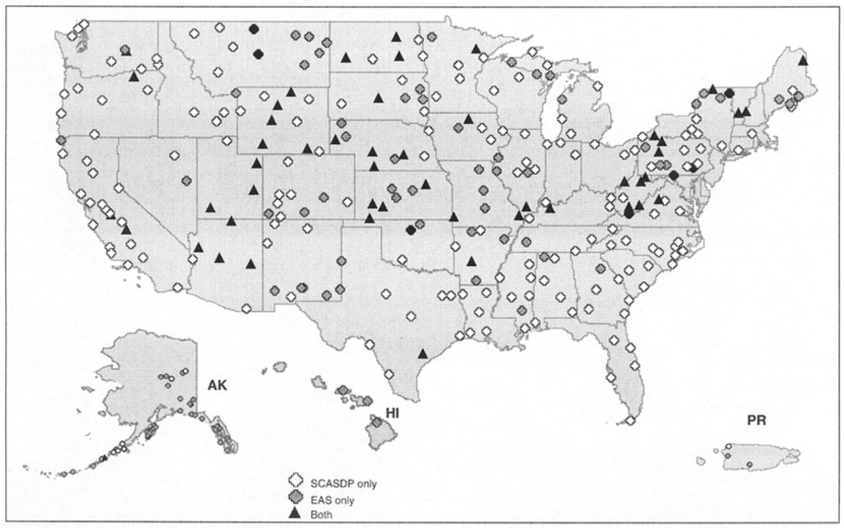
1. Do demographic indicators and the business environment support the project?
2. Does the community have a demonstrated track-record of implementing air service development projects?
3. Does the project address the stated problem?
4. Does the community have a firm plan for promoting the service?
5. Does the community have a definitive plan for monitoring, modifying, and terminating the project, if necessary?
6. Does the community have a plan for continued support of the project if self-sufficiency or completion is not attained after the grant expires?
7. If it is mainly a marketing proposal, does the community have a firm implementation plan in place?
8. Is the applicant a participating consortium?
9. Is the project innovative?
10. Does the project have unique geographical traits or other considerations?
11. Is the amount of funding requested reasonable compared with the total amount of funding available?
12. Is the local contribution reasonable compared with the amount requested?
13. Can the project be completed during the funding period requested?
14. Is the applicant a small hub now?
15. Is the applicant a large nonhub now?
16. Is the applicant a small nonhub now?
17. Is the applicant currently subsidized through Essential Air Service?
18. Is the project for marketing only?
19. Is the project a study only?
20. Does the project involve intermodal services?
21. Is the project primarily a carrier incentive?
22. Is the project primarily air fare focused?
23. Does the project involve a low-fare service provider?

24. Does the proposal shift costs from the local or state level to the Federal level?
25. Does the proposal show that proximity to other service would detract from it?
26. Is the applicant geographically close to a past grant recipient?

Source: GAO table based on DOT information.

APPENDIX II: ESSENTIAL AIR SERVICE AIRPORTS AND SMALL COMMUNITY AIR SERVICE DEVELOPMENT PROGRAM GRANTEES

Figure 5: Airports Receiving Essential Air Service (EAS) as of May 2006 and All Small Community Air Service Development Program (SCASDP) Grantees, through August 10, 2006



Source: GAO.

Note: Alaska, Hawaii and Puerto Rico are not to scale.

APPENDIX III: STATUS OF SCASDP GRANTS AWARDED, 2002–2006

2002 Grant Year

	Location	Grant amount	Status as of August 31, 2006
1.	Abilene, TX	$85,010	Completed
2.	Akron/Canton, OH	950,000	Completed
3.	Aleutians East Borough, AK	240,000	Completed
4.	Asheville, NC	500,000	Completed
5.	Augusta, GA	759,004	Terminated
6.	Baker City, OR	300,000	Terminated
7.	Beaumont/Port Arthur, TX	500,000	Completed
8.	Bellingham, WA	301,500	Ongoing
9.	Binghamton, NY	500,000	Completed
10.	Bismarck, ND	1,557,500	Ongoing
11.	Brainerd, St Cloud, MN	1,000,000	Completed
12.	Bristol/Kingsport/Johnson City, TN	615,000	Completed
13.	Cape Girardeau, MO	500,000	Completed
14.	Casper, Gillette, WY	500,000	Terminated
15.	Charleston, WV	500,000	Completed
16.	Chico, CA	44,000	Completed
17.	Daytona Beach, FL	743,333	Completed
18.	Fort Smith, AR	108,520	Completed
19.	Fort Wayne, IN	398,000	Completed
20.	Hailey, ID	600,000	Completed
21.	Lake Charles, LA	500,000	Completed
22.	Lake Havasu City, AZ	403,478	Completed
23.	Lamar, CO	250,000	Completed

2002 Grant Year—Continued

	Location	Grant amount	Status as of August 31, 2006
24.	Lynchburg, VA	500,000	Completed
25.	Manhattan, KS	388,350	Completed
26.	Marion, IL	212,694	Completed
27.	Mason City, IA	600,000	Terminated
28.	Meridian, MS	500,000	Completed
29.	Moab, UT	250,000	Completed
30.	Mobile, AL	456,137	Completed
31.	Paducah, KY	304,000	Completed
32.	Presque Isle, ME	500,000	Completed
33.	Rapid City, SD	1,400,000	Completed
34.	Reading, PA	470,000	Completed
35.	Rhinelander, WI	500,000	Completed
36.	Santa Maria, CA	217,530	Completed
37.	Scottsbluff, NE	950,000	Completed
38.	Somerset, KY	95,000	Completed
39.	Taos/Ruidoso, NM	500,000	Completed
40.	Telluride, CO	300,000	Completed
Total		$19,999,056	

Source: GAO analysis of DOT data.

2003 Grant Year

	Location	Grant amount	Status as of August 31, 2006
1.	Aguadilla, PR	$626,700	Ongoing
2.	Aleutians East Borough, AK	70,000	Ongoing
3.	AZ Consortium, AZ	1,500,000	Ongoing
4.	Bakersfield, CA	982,513	Ongoing
5.	Bangor, ME	310,000	Ongoing
6.	Charleston, SC	1,000,000	Terminated
7.	Cut Bank, MT	90,000	Completed
8.	Dickinson, ND	750,000	Completed
9.	Dothan, AL	200,000	Completed
10.	Dubuque, IA	610,000	Ongoing
11.	Duluth, MN	1,000,000	Ongoing
12.	Elmira, NY	200,000	Ongoing
13.	Erie, PA	500,000	Completed
14.	Fresno, CA	1,000,000	Ongoing
15.	Friday Harbor, WA	350,000	Completed
16.	Gainesville, FL	660,000	Completed
17.	Grand Island, NE	380,000	Ongoing
18.	Greenville, MS	400,000	Terminated
19.	Gunnison, CO	200,000	Completed
20.	Joplin, MO	500,000	Ongoing
21.	Knoxville, TN	500,000	Terminated
22.	Laredo, TX	400,000	Ongoing
23.	Lewiston-Nez Perce, ID	675,000	Ongoing
24.	Mountain Home (Baxter), AR	574,875	Ongoing
25.	Muskegon, MI	500,000	Completed
26.	NC Consortium, NC	1,200,000	Ongoing
27.	Owensboro, KY	500,000	Ongoing
28.	Parkersburg-Marietta, WV/OH	500,000	Ongoing
29.	Pierre, SD	150,000	Completed
30.	Redmond, OR	515,000	Completed
31.	Savannah, GA	523,495	Completed
32.	Shreveport, LA	500,000	Completed
33.	Staunton, VA	100,000	Ongoing
34.	Taos Consortium, NM	1,400,000	Completed
35.	Tupelo, MS	475,000	Completed
36.	Victoria, TX	20,000	Completed
Total		$19,862,583	

Source: GAO analysis of DOT data

2004 Grant Year

	Location	Grant amount	Status as of August 31, 2006
1.	Albany, GA	$500,000	Ongoing
2.	Alpena, MI	583,046	Ongoing
3.	Beckley/Lewisburg, WV	300,000	Ongoing
4.	Bloomington, IL	850,000	Ongoing
5.	Butte, MT	360,000	Ongoing
6.	Champaign-Urbana, IL	200,000	Completed
7.	Charlottesville, VA	270,000	Ongoing
8.	Chattanooga, TN	750,000	Ongoing
9.	Clarksburg/Morgantown (reallocation), WV	372,286	Ongoing
10.	Columbus, MS	260,000	Ongoing
11.	Del Rio, TX	318,750	Ongoing
12.	Dubois, PA	400,000	Ongoing
13.	Eau Claire, WI	500,000	Ongoing
14.	Elko, NV	222,000	Completed
15.	Evansville/South Bend, IN	1,000,000	Ongoing
16.	Farmington, NM	650,000	Ongoing
17.	Hot Springs (reallocation), AR	195,000	Completed
18.	Huntsville, AL	479,950	Completed
19.	Kalamazoo, MI	500,000	Ongoing
20.	Lafayette, LA	240,000	Ongoing
21.	Latrobe, PA	600,000	Ongoing
22.	Lebanon, NH	500,000	Ongoing
23.	Lincoln, NE	1,200,000	Ongoing
24.	Logan City, UT	530,000	Ongoing
25.	Marquette, MI	700,000	Ongoing
26.	McCook/North Platte, NE	275,000	Ongoing
27.	New Haven, CT	250,000	Ongoing
28.	Pocatello, ID	75,000	Completed
29.	Redding/Arcata, CA	500,000	Ongoing
30.	Richmond, VA	950,000	Ongoing
31.	Rutland (reallocation), VT	240,000	Ongoing
32.	Salem, OR	500,000	Ongoing
33.	Santa Rosa, CA	635,000	Ongoing
34.	Sarasota, FL	1,500,000	Ongoing
35.	Sioux City, IA	609,800	Ongoing
36.	Sioux Falls, SD	350,000	Ongoing
37.	Steamboat Springs, CO	500,000	Ongoing
38.	Sumter, SC	50,000	Completed
39.	Syracuse (reallocation), NY	480,000	Ongoing
40.	Tyler, TX	90,000	Ongoing
41.	Visalia (reallocation), CA	200,000	Ongoing
42.	Walla Walla, WA	250,000	Ongoing
43.	Waterloo, IA	550,000	Ongoing
44.	Wilkes-Barre/Scranton, PA	625,000	Completed
45.	Worcester (reallocation), MA	442,615	Ongoing
46.	Youngstown, OH	250,000	Ongoing
Total		$21,803,447	

Source: GAO analysis of DOT data.
Note: Program funds from 2002 and 2003 were reallocated to six cities in 2004.

2005 Grant Year

	Location	Grant amount	Status as of August 31, 2006
1.	Aberdeen, SD	$450,000	Ongoing
2.	Alexandria, LA	500,000	Ongoing
3.	Bradford, PA	220,000	Ongoing
4.	CA Consortium, CA	245,020	Ongoing
5.	Cedar City, UT	155,000	Ongoing
6.	Durango, CO	750,000	Ongoing

2005 Grant Year—Continued

	Location	Grant amount	Status as of August 31, 2006
7.	Fargo, ND	675,000	Ongoing
8.	Florence, SC	500,000	Ongoing
9.	Great Falls, MT	220,000	Ongoing
10.	Greenville, NC	450,000	Ongoing
11.	Gulfport/Biloxi, MS	750,000	Ongoing
12.	Hancock/Houghton, MI	516,000	Ongoing
13.	Hibbing, MN	485,000	Ongoing
14.	Huntington, WV	500,000	Ongoing
15.	Idaho Falls, ID	500,000	Ongoing
16.	Ithaca, NY	500,000	Ongoing
17.	Jacksonville, NC	500,000	Ongoing
18.	Killeen, TX	280,000	Ongoing
19.	Knox County, ME	555,000	Ongoing
20.	Lawton/Ft. Sill, OK	570,000	Ongoing
21.	Macon, GA	507,691	Ongoing
22.	Marathon, FL	750,000	Ongoing
23.	Marshall, MN	480,000	Ongoing
24.	Massena, NY	400,000	Ongoing
25.	Modesto, CA	550,000	Ongoing
26.	Monterey, CA	500,000	Ongoing
27.	Montgomery, AL	600,000	Ongoing
28.	Oregon/Washington Consortium, OR/WA	180,570	Ongoing
29.	Rockford, IL	1,000,000	Ongoing
30.	Ruidoso, NM	600,000	Ongoing
31.	Somerset, KY	950,000	Ongoing
32.	Stewart (Newburgh), NY	250,000	Ongoing
33.	Vernal, UT	40,000	Ongoing
34.	Williamsport, PA	500,000	Ongoing
35.	Wyoming Consortium, WY	800,000	Ongoing
Total		$17,429,281	

Source: GAO analysis of DOT data.

2006 Grant Year

	Location	Grant amount
1.	Abilene, TX	$465,100
2.	Big Sandy Region, KY	90,000
3.	Brunswick, GA	500,000
4.	Cedar Rapids, IA	200,000
5.	Chico, CA	472,500
6.	Fairbanks, AK	500,000
7.	Gallup, NM	600,000
8.	Garden City/Dodge City/Liberal, KS	150,000
9.	Gary, IN	600,000
10.	Grand Forks, ND	350,000
11.	Harrisburg, PA	400,000
12.	Jackson, MS	400,000
13.	Jamestown, NY	150,000
14.	Jamestown/Devil's Lake, ND	100,000
15.	Kalispell, MT	450,000
16.	Longview, TX	225,000
17.	Lynchburg, VA	250,000
18.	Melbourne, FL	800,000
19.	Monroe, LA	50,000
20.	Montrose, CO	450,000
21.	North Bend, OR	400,000
22.	Palmdale, CA	900,000
23.	Springfield, IL	390,000
24.	Toledo, OH	400,000
25.	Tuscaloosa, AL	400,000
Total		$9,692,600

Source: DOT data.

APPENDIX IV: ESSENTIAL AIR SERVICE COMMUNITIES AND SUBSIDIES AS OF MAY 1, 2006

Table 2: Essential Air Service (EAS) Communities in the Contiguous United States, Hawaii, and Puerto Rico

States and communities	May 1, 2006 annual subsidy amounts
ALABAMA	
Muscle Shoals	$1,364,697
ARIZONA	
Kingman	1,001,989
Page	1,057,655
Prescott	1,001,989
Show Low	779,325
ARKANSAS	
El Dorado/Camden	923,456
Harrison	923,456
Hot Springs	1,385,183
Jonesboro	923,456
CALIFORNIA	
Crescent City	816,025
Merced	696,788
Visalia	450,000
COLORADO	
Alamosa	1,083,538
Cortez	853,587
Pueblo	780,997
GEORGIA	
Athens	392,108
HAWAII	
Hana	774,718
Kamuela	395,053
Kalaupapa	331,981
ILLINOIS	
Decatur	954,404
Marion/Herrin	1,251,069
Quincy	1,097,406
IOWA	
Burlington	1,077,847
Fort Dodge	1,080,386
Mason City	1,080,386
KANSAS	
Dodge City	1,379,419
Garden City	1,733,997
Great Bend	621,945
Hays	1,540,392
Liberal	1,008,582
Manhattan/Ft. Riley	487,004
Salina	487,004
KENTUCKY	
Owensboro	1,127,453
MAINE	
Augusta/Waterville	1,065,475
Bar Harbor	1,065,475
Presque Isle	1,116,423
Rockland	1,065,475
MARYLAND	
Hagerstown	649,929

Table 2: Essential Air Service (EAS) Communities in the Contiguous United States, Hawaii, and Puerto Rico—Continued

States and communities	May 1, 2006 annual subsidy amounts
MICHIGAN	
Escanaba	290,952
Ironwood/Ashland, WI	409,242
Iron Mountain/Kingsford	602,761
Manistee/Ludington	776,051
MINNESOTA	
Chisholm/Hibbing	1,279,329
Thief River Falls	777,709
MISSISSIPPI	
Laurel/Hattiesburg	1,100,253
MISSOURI	
Cape Girardeau	1,147,453
Columbia/Jefferson City	Order 2006–4–6 requested proposals for Columbia/Jefferson City
Fort Leonard Wood	683,201
Joplin	755,762
Kirksville	840,200
MONTANA	
Glasgow	922,103
Glendive	922,103
Havre	922,103
Lewistown	922,103
Miles City	922,103
Sidney	1,306,313
West Yellowstone	247,122
Wolf Point	922,103
NEBRASKA	
Alliance	655,898
Chadron	655,898
Grand Island	1,198,396
Kearney	1,166,849
McCook	1,502,651
North Platte	870,504
Scottsbluff	494,887
NEVADA	
Ely	784,463
NEW HAMPSHIRE	
Lebanon	998,752
NEW MEXICO	
Alamogordo/Holloman	Order 2006–3–26 requested proposals on an emergency basis
Carlsbad	599,671
Clovis	859,057
Hobbs	519,614
Silver City/Hurley/Deming	859,057
NEW YORK	
Jamestown	1,217,414
Massena	585,945
Ogdensburg	585,945
Plattsburgh	753,964
Saranac Lake	753,964
Watertown	585,945
NORTH DAKOTA	
Devils Lake	1,329,858
Dickinson	1,697,248

Table 2: Essential Air Service (EAS) Communities in the Contiguous United States, Hawaii, and Puerto Rico—Continued

States and communities	May 1, 2006 annual subsidy amounts
Jamestown	1,351,677
OKLAHOMA	
Enid	636,279
Ponca City	636,279
OREGON	
Pendleton	649,974
PENNSYLVANIA	
Altoona	893,774
Bradford	1,217,414
DuBois	643,818
Johnstown	464,777
Lancaster	1,611,707
Oil City/Franklin	683,636
PUERTO RICO	
Mayaguez	688,551
Ponce	622,056
SOUTH DAKOTA	
Brookings	1,039,364
Huron	1,039,364
Pierre	449,912
Watertown	1,211,589
TENNESSEE	
Jackson	1,179,026
TEXAS	
Victoria	510,185
UTAH	
Cedar City	1,068,608
Moab	783,608
Vernal	555,771
VERMONT	
Rutland	849,705
VIRGINIA	
Staunton	650,123
WASHINGTON	
Ephrata/Moses Lake	1,698,922
WEST VIRGINIA	
Beckley	977,858
Clarksburg/Fairmont	306,109
Greenbrier/Lewisburg/White Sulphur Springs	540,579
Morgantown	306,109
Parkersburg	439,115
Princeton/Bluefield	977,858
WYOMING	
Laramie	397,400
Riverton	394,046
Rock Springs	390,488
Sheridan	336,701
Worland	797,844

Source: DOT.

Table 3: Alaskan EAS Communities

Community	May 1, 2006 annual subsidy
Adak	$1,617,923
Akutan	350,381
Alitak	106,054
Amook Bay	16,622
Atka	336,303
Cape Yakataga	30,920
Central	61,421
Chatham	6,433
Chisana	Order 2006–4–13 held in 40-Mile Air and Requested Proposals
Circle	61,421
Cordova	1,763,179
Elfin Cove	108,297
Excursion Inlet	9,212
Funter Bay	6,433
Gulkana	199,839
Gustavus	732,217
Healy Lake	51,781
Hydaburg	54,733
Icy Bay	30,920
Karluk	38,880
Kitoi Bay	16,622
Manley	24,768
May Creek	69,759
McCarthy	69,759
Minto	24,768
Moser Bay	16,622
Nikolski	173,603
Olga Bay	16,622
Pelican	108,297
Petersburg	732,217
Port Alexander	48,746
Port Bailey	16,622
Port William	16,622
Seal Bay	16,622
Uganik	15,715
West Point	16,622
Wrangell	732,217
Yakutat	1,763,179
Zachar Bay	16,622

Source: DOT.

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Airline Deregulation: Reregulating the Airline Industry Would Reverse Consumer Benefits and Not Save Airline Pensions. GAO–06–630 Washington, D.C.: June 9, 2006.

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Essential Air Service: Changes in Subsidy Levels, Air Carrier Costs, and Passenger Traffic. RCED–00–34 Washington, D.C.: April 14, 2000.

ENDNOTES

1 The U.S. network carriers are Alaska Airlines, American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, United Airlines, and US Airways.

2 The Nation's commercial airports are categorized into four main groups based on annual passenger enplanements—large hubs, medium hubs, small hubs, and nonhubs. The 30 large hubs and 37 medium-hub airports together enplaned about 89 percent of the almost 703 million U.S. passengers in 2004. In contrast, the 69 small hubs enplaned about 8 percent, and the 374 nonhub airports enplaned about 3 percent of U.S. passengers.

3 Small community airports also receive other financial support from the Federal Government. For example, under the Airport Improvement Program small airports receive certain funds for addressing capital improvement needs—such as for runway or taxiway improvements.

4 Overflight fees are user fees for air traffic control services provided by the Federal Aviation Administration (FAA) to aircraft that fly over, but do not land in the United States, as authorized by the Federal Aviation Reauthorization Act of 1996 (Pub. L. 104–264).

5 The Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005, Pub. L. No. 109–13, recognized that the funds appropriated for EAS may not be sufficient to meet the service needs of communities encompassed by that program. The Emergency Supplemental Appropriations Act provided that the Secretary of Transportation could transfer "such sums as may be necessary to carry out the Essential Air Service program from any available amounts appropriated to or directly administered by the Office of the Secretary."

6 GAO, *21st Century Challenges: Reexamining the Base of Federal Government.* GAO–05–325SP. (Washington, D.C.: 2005). February 2005.

7 The analysis is based on 2004 national enplanement data—the most recent data available.

8 A network carrier operates a significant portion of its flights using at least one hub where connections are made for flights on a spoke system. Regional carriers provide service from small communities primarily using regional jets to connect the network carriers' hub-and-spoke system.

9 Code of Federal Regulations Title 14 Part 121 (14 CFR Part 121) provides details on aircraft certification requirements for aircraft that operate scheduled service with 10 or more seats. The Commuter Rule was instituted with 60 Fed. Reg. 65832, December 20, 1995.

10 Aviation and Transportation Security Act, Section 110 of Pub. L. 107–71, 115 Stat. 597 (2001).

[11] Low-cost carriers follow a business model that may include point- to-point service between high-density city pairs, a standardized fleet with high aircraft utilization, low fares, and minimal onboard service.

[12] Special provisions guaranteed service to Alaskan communities.

[13] Subsidies are used to cover the difference between a carrier's projected revenues and expenses and to provide a minimum amount of profit.

[14] The average subsidy per passenger does not equate to a specific portion of a passenger's ticket price paid for by EAS funds. Ticket pricing involves a complex variety of factors relating to the demand for travel between two points, the supply of available seats along that route, competition in the market, and how air carriers choose to manage and price their available seating capacity.

[15] 49 U.S.C. 41732.

[16] DOT officials said that they check the reasonableness of the cost and revenue information received from the air carriers against other data reported to DOT and in documents filed with the Securities and Exchange Commission.

[17] At any time throughout the year, an air carrier providing unsubsidized service to an EAS-eligible community can file a notice to suspend service if the carrier determines that it can no longer provide profitable service, thus triggering a carrier selection case. In addition, after DOT selects an air carrier to provide subsidized service, that agreement is subject to renewal, generally every 2 years, at which time other air carriers are permitted to submit proposals to serve that community with or without a subsidy.

[18] Pub. L. 106–181.

[19] Vision 100, Pub. L. 108–176

[20] DOT must give priority consideration to communities that: (1) have air fares higher than average for all communities, (2) provide a portion of the cost of the project from local sources other than airport revenues, (3) have—or plan to establish—a public-private partnership to facilitate air carrier service to the public, (4) will provide material benefits to a broad segment of the public that has limited access to the national air transportation system, and (5) will use the assistance in a timely manner.

[21] The highest number of communities served during the program's history was 405 in 1980.

[22] DOT did not have ridership data available for all EAS communities.

[23] GAO, *Commercial Aviation: Factors Affecting Efforts to Improve Air Service at Small Community Airports,* GAO–03–330 (Washington, D.C.: 2003). January 17, 2003.

[24] The authorizing legislation provides one limitation on the timing of expenditures. If funds are used to subsidize air service, the subsidy cannot last more than 3 years. However, the time needed to obtain the service is not included in the subsidy time limit. The legislation does not limit the timing of expenditures for other purposes. In Fiscal Year 2005, DOT issued an order specifying that in general, grant funds should be expended within 3 years.

[25] We considered a grant to be complete when the activities associated with the grant were finished and FAA had made final reimbursements of allowable costs.

[26] According to DOT officials, the agency only initiated the termination for the grant awarded to Casper/Gillette, Wyoming. The communities awarded the other six grants requested the termination of the grants.

[27] GAO–05–325SP.

[28] This information was current as of January 2006.

[29] As we reported in our 2002 report, although scheduled commercial air service is positively correlated with local economic activity, we were unable to locate reliable studies that describe the extent to which scheduled commercial air service is directly responsible for economic development in small communities in the United States (*i.e.,* whether air service precedes, follows, or develops simultaneously with local economic activity).

[30] GAO, *Initial Small Community Air Service Development Projects Have Achieved Mixed Results,* GAO–06–21 (Washington, D.C.: Nov. 2005).

[31] Businesses or individuals deposit or promise future travel funds to a carrier providing new or expanded service. Contributing businesses and individuals can then draw down from this account.

Senator BURNS. Thank you, Mr. Dillingham. We appreciate that.

Senator Rockefeller has a pressing appointment coming up, and I would forego my time and yield to the Senator from West Virginia.

Senator ROCKEFELLER. Mr. Chairman, you're, typically, very, very kind.

Let me ask two questions at once. The first one will be to you, Mr. Dillingham, and the second one will be to both of you.

The GAO has reviewed the Essential Air Service program—you've discussed that at length—in a series of reports, and your testimony reiterates policy options. All of these options are predicated on reducing the Federal Government's obligation to the program, it seems to me. I know that inadequate and unreliable service, and the use of small turboprop aircraft, are two reasons why a lot of people don't want to fly from EAS communities. Has the GAO ever examined the impact of providing substantially more resources in the program—I don't care about OMB, I care about what you think—so that air service would be provided for larger aircraft—not big jets, but, you know, regional or simply just larger turboprop—and with more frequent service? That's the one to you.

To both of you, so I get them both out, GAO notes in its testimony that the EAS programs that Senator Lott and I included in the last FAA bill have been largely unused. GAO only vaguely notes that this is for a variety of reasons. It happens to be totally untrue, incidentally, in West Virginia, where it's turned a number of our airports completely around. Could you please explain why these initiatives were not acted upon by the Department of Transportation, why communities did not take advantage of them, to the extent that that's correct?

Mr. DILLINGHAM. I'll take a shot at my question, Senator Rockefeller.

We, at GAO, have not examined the potential for what would happen with larger aircraft, but what we can say is that based on what Mr. Reynolds referred to as "leakage," the fact that people have a tendency to drive some distance so that they could connect with low-fare carriers and larger aircraft, one could hypothesize that you would perhaps draw more people if the people were there to take advantage of the service.

Another thing that we have found, in looking——

Senator ROCKEFELLER.—point out that Huntington, West Virginia, and Charleston, have proved that—your statement is flat-out wrong? People used to drive—16 percent of our passenger traffic used to drive to Cincinnati to get out on Southwest, cheaper. What we started doing was—and using AIDP and others for this—using—advertising airports as if they were products. You've got to advertise. People stopped driving to Cincinnati and started getting on those airplanes, which then increased our service.

Mr. DILLINGHAM. Yes, sir. I would not disagree with you because in our study of the Small Community Program and EAS, we found that marketing was a major factor in bringing passengers to the airport.

There's no one size that fits all. There have been some success cases, based on a number of factors, but it's also the case that people generally are not as happy, I would say, to ride the smaller aircraft. So, I would assume that the opposite would hold true, as well, that a larger aircraft would, in fact, attract more passengers. It's up to the airline whether they can make that choice to have a larger aircraft, and the cost associated with it.

Senator ROCKEFELLER. OK.

Mr. REYNOLDS. Senator Rockefeller, we—there were several programs that were in Vision 100—the Alternate Program, and the Community Flexibility Program. The Department did establish both programs. In this case, no communities ever sought to participate. I think our view is that communities feel comfortable with the service they have, and they weren't necessarily willing to take risks to try something different, in terms of the EAS communities, if it meant leaving what they have and trying something new. Of course, some EAS communities have applied for Small Community grants, and have received those, and we've had some results there that are positive.

Senator ROCKEFELLER. But doesn't that make the point? Doesn't that discount what you've said in your first sentence?

Mr. REYNOLDS. No. I mean, I——

Senator ROCKEFELLER. I mean, people have been used to getting EAS-level funding for so many years that you might speculate that, well, OK, we're stuck with that. I'm suggesting another option: more money.

Mr. REYNOLDS. Well, with respect to more money, I think that—I mean, I was just saying that the programs—we have implemented the programs, but no none has come. In those cases, it was—take, for example, 2 years in a lump—2 years of EAS subsidies in a lump sum, and make some improvements at your airport, for example. That was one of the other—that was one of the programs. And the other was trying to take advantage of maybe doing air taxis or alternate services. None of them involved, necessarily, doing marketing along the lines of the Small Community Air Service Development Program, which is a—pretty much a part of every single grant that we give. The marketing does——

Senator ROCKEFELLER. My time is out——

Mr. REYNOLDS.—yield benefits.

Senator ROCKEFELLER.—but I would simply point out what I think was the thrust, maybe, of where you're coming from, and I hope I'm wrong, that—you said if people don't see an improvement, because there isn't any more funding, they will start making more and more negative decisions. The—obviously, the option I'm suggesting is more funding for EAS and more funding for AIDP, because, let me tell you, where AIDP is applied, it makes an enormous difference, not just in marketing, but in airport improvement—facilities, gateways, things of that sort.

Thank you, Mr. Chairman.

Senator BURNS. Thank you, Senator Rockefeller.

Along that same line, Mr. Reynolds, it's come to the attention of this committee, and—that the EAS program has incurred accounts with substantial unliquidated obligations. Could you please explain to this committee what is the situation right now, and has the Department—what they've done to correct this accounting—and give us some idea on some of those unliquidated obligations.

Mr. REYNOLDS. Certainly, Mr. Chairman.

After the terrorist attacks of September 11, the EAS carriers were in especially bad financial situations, as were most airlines. Without some form of across-the-board relief, many EAS carriers probably would have shut down, leaving many communities, of

course, without any kind of service. To prevent that, the Department issued an order granting all subsidized EAS carriers an across-the-board rate increase. The increase was based on a formula that was subject to retroactive adjustment and finalization, based on actual financial results. To protect the program, the full liability was obligated. So, as we ended up settling the open rates over time, we were able to negotiate lower rates—and sometimes significantly lower. As a result, there were many accounts with substantial unliquidated obligations, because we assumed sort of a worst-case scenario as to what the carriers might need, but were able to resolve rates that were much less than that, in the end.

Also, we've had an internal effort to improve our financial management of the program, and that revealed additional unliquidated obligations.

Normally, when an order for a subsidized air service is created, the maximum amount that could ever be claimed is obligated for the given fiscal year. Frequently, carriers don't claim all of that money, for a variety of reasons. Because we pay air carriers based on completed flights, they don't necessarily complete every single flight—sometimes for weather, mechanical reasons, or a variety of other reasons—thus, over time, funds remain unliquidated obligations for periods of prior performance.

Recently, we sent close-out letters going back several years to close-out these old contracts and ensure that we can now start deobligating funds. To ensure this doesn't happen again, we're including language in EAS contracts going forward, so that the de-obligations can happen as a matter of course. Of course, 9/11 is—we certainly hope—a one-off situation, but we are in the process of deobligating these monies right now, and hopefully they will be back in the account very soon.

Senator BURNS. Mr. Dillingham, are you aware of this accounting situation? And have you fully reviewed the situation?

Mr. DILLINGHAM. Mr. Chairman, we were not aware of that accounting situation. It recently came to our attention.

Senator BURNS. Do you plan to do—do you plan to look at it?

Mr. DILLINGHAM. Yes, sir, we do.

Senator BURNS. I think the Committee needs a full report on that. And we may have to formally, probably, request it from you before you take action, but I would suggest that that be done.

In the last FAA reauthorization bill, there were some additional—some Small Community Programs, including the Alternate Essential Air Service Pilot program and the Community Flexibility Pilot program. Mr. Reynolds, why have these programs not been successful? And have you—and have you filled out a full report on that, and give some information to the Committee why they have not succeeded, as planned?

Mr. REYNOLDS. Certainly, Mr. Chairman. I think I touched upon this in answer to Senator Rockefeller's——

Senator BURNS. Yes.

Mr. REYNOLDS.—Senator Rockefeller's question. We established the programs. We solicited community input or applications, and no one came calling, essentially. Again, I think it's a matter of carriers—I mean, communities being very comfortable with what they have. The Essential Air Service is an entitlement. I don't think

they wanted to take a risk in trying something new and potentially have a different form of service, or that, if it didn't work out, that they would be without their air service, which, of course, a great many of them feel is very critical.

So, that's—you know, it's difficult to determine exactly what's in everyone's minds as to why they chose not to try to pursue these—I mean, one of the—one of the programs was authorized, but has been blocked in legislation at other times. But the two to which you were referring, we—again, we solicited applications, and no one ever came calling. So——

Senator BURNS. Would you like to comment on that, Mr. Dillingham?

Mr. DILLINGHAM. I'd like to underline something that Mr. Reynolds said. The new programs aren't incentivized enough to make the communities take advantage of it. And I think if you look at these programs and see if there's some way to better incentivize them, in spite of the risk-adverse nature of some of the communities, it might have a better chance of success.

I would also suggest trying to find out specifically from the communities why they have not expressed interest in these programs, so you have more information with which to assess the programs.

Senator BURNS. Well, I think, you know, when we go into the reauthorization next year, we should have full accountability of that, and, if some changes are made, to make it, you know, more flexible or whatever it takes, we should take a look at that.

At the end of the month, this subcommittee will have a hearing on new aircraft that are coming in to be used around the country. We'll look at very light jets, air taxis, and other aviation modes. Do you anticipate, either one of you, any—anticipate new evolutions in aviation and what effect they might have on our small communities and their air service?

Mr. REYNOLDS. I think that it's very difficult to predict the future in terms of what new aircraft or technologies might produce. I certainly think that if there are more options available to consumers everywhere, whether that's smaller rural communities or others, that that can be a good thing. Of course, if people are using smaller jets as air taxis, and they would be, normally, business passengers that might fly scheduled service, that might have another effect. But I think until we see these types of aircraft or these things in the marketplace, we just really won't know.

Senator BURNS. It's my opinion that we're taking a look at that—Congress is—and I think I would probably ask you to be pretty agile, looking on that.

Mr. Dillingham, would you like to comment on that? Because we're seeing some effects on it over in the FAA part of our responsibility.

Mr. DILLINGHAM. Chairman Burns, we are just getting underway with a study looking at the impact of very light jets and unmanned aircraft on the system, both from a safety perspective, as well as from a capacity perspective. So, we won't be ready to testify at your hearing at the end of the month, but we'd certainly be willing to work with your staff to have you as a part of the study that we're undertaking.

Senator BURNS. Well, we're sure looking at that, because there are big changes happening out there, and I think there are a lot of things that neither we know—this committee—or Congress knows. And you're dealing with some unknowns, also.

Mr. Reynolds, we added an additional $15 million a year to the FY 2007–2008 for EAS programs. I'm sure that you're using the money.

Mr. REYNOLDS. If we need the money, sir, we will take advantage of it. We have—internally, we are taking steps to ensure that if it's needed, we will be able to have access to it in a timely fashion.

Senator BURNS. You mentioned some new approaches, in your opening statement. And with the upcoming year and the FAA reauthorization, regarding EAS, I would hope that you'd be a participant in those ideas as we move forward with the—with reauthorization. And we'd look for your cooperation.

Also, we believe that these communities adequately market the service. And what can we do to improve the relationship? I think you brought up one thing, where people are starting to advertise their airports rather than the service. And I would subscribe to that.

And so, that's all the questions I have for this panel. I would just like to thank you, and—both of you, for your cooperation. And as we move into next year and reauthorization, I'm sure we'll be calling on you with some more technical information. Any information that we might not think we need, and you can collect, why, it would certainly be appreciated. And I thank you for coming this morning.

And we'll go to our—we'll go to our next—we'll go to our next panel.

Mr. DILLINGHAM. Thank you, Mr. Chairman.

Senator BURNS. And you're excused. Thank you very much.

Mr. REYNOLDS. Thank you.

Senator BURNS. Chairman Stevens wanted to make this hearing, this morning. He is managing the port security bill now on the floor of the Senate. And he may have some record—he may have some questions for you in—to be submitted for the record, so I thank you—if either one of you could respond to those questions, it would certainly be appreciated.

Mr. REYNOLDS. Absolutely, Mr. Chairman.

Senator BURNS. Thank you.

Now, on our second panel, we'll hear from Ms. Faye Malarkey, Vice President of Legislative Affairs of Regional Airline Association, here in Washington; John Torgerson, Deputy Commissioner of Aviation, Department of Transportation, from Anchorage, Alaska; and Doug Kaercher, Hill County Commissioner, and—the National Association of Counties—and he comes from Havre, Montana.

Hill County, you're getting a new—you're getting a new store up there. I was through there the other day, and——

Mr. KAERCHER. I would say it's about——

Senator BURNS. Yes?

Mr. KAERCHER.—about 70 percent completed.

[Laughter.]

Senator BURNS. You're—Havre is on the move.

We look forward now to Ms. Malarkey and Regional Airline Association. We look forward to your testimony. Thank you for coming this morning, by the way.

STATEMENT OF FAYE MALARKEY, VICE PRESIDENT, LEGISLATIVE AFFAIRS, REGIONAL AIRLINE ASSOCIATION

Ms. MALARKEY. Thank you, Mr. Chairman, Members of the Subcommittee.

Senator BURNS. You might want to pull that microphone up to you and turn it on. We want to hear your——

Ms. MALARKEY. Thank you.

Senator BURNS. You bet.

Ms. MALARKEY. Thank you, Mr. Chairman.

My name is Faye Malarkey, and I'm Vice President of Legislative Affairs with the Regional Airline Association, or RAA. RAA represents regional airlines providing short- and medium-haul scheduled airline service connecting smaller communities with hub airports.

Of the 664 commercial airports in the Nation, fully 479 are served exclusively by regional airlines. In other words, at 72 percent of our Nation's commercial airports, passengers rely on regional airlines for their only source of scheduled air transportation.

As we have heard, the Department of Transportation currently subsidizes service to more than 150 rural communities that would not otherwise receive scheduled air service, through the EAS program. With your permission, it is on this program that I would like to focus my spoken remarks today.

In the 5 years since the attacks of September 11, 2001, a comparison of nonstop flights to and from airports in the lower 48 United States illustrates that the most dramatic service losses have occurred in rural communities. Airports with between one and three daily enplanements, for instance, have seen a 21-percent decline in daily departures since September 2001. Thirteen of these airports have lost service altogether. Likewise, airports with between three and six daily flights since September 2001 have experienced a 33-percent decline in departures, with eight such airports losing service altogether.

Since 9/11, approximately 40 additional communities have been forced into the EAS programs, and, in the past several months alone, four EAS communities have lost air service altogether.

One of the single greatest factors accounting for these losses, as you know, has been the staggering increase in fuel prices. Carriers negotiate in good faith with the DOT to determine EAS subsidy rates that remain in effect for 2 years. EAS carriers must, therefore, project revenues and costs over this entire 2-year timeframe—no easy task, considering today's volatile cost environment.

In cases of unexpected cost increases, EAS carriers currently lack a mechanism to renegotiate rates and must instead enter into the unpalatable process of filing termination notices in order to seek compensation rates that cover their increased costs.

One of the fundamental tenets of the EAS program holds that no carrier should be expected to serve any market unprofitably. Yet, in these cases carriers are forced to continue service for 180 days

at a financial loss, while DOT reopens the competitive bidding process.

Given this scenario, fuel cost increases remain the single most dramatic factor behind service reductions. Take the case of Merced, California, one of DOT's noted success stories of 2005. While the carrier involved with the market engaged in rigorous cost savings, was able, initially, to double the traffic forecast in its original EAS proposal, escalating fuel costs ultimately caused the carrier to file 90-day notices at Merced, as well as Visalia, California, and Ely, Nevada. And, in doing so, it noted, "Scenic's need to terminate service at these airports stems primarily from fuel-cost escalations that have undermined the economic viability of the carrier's EAS operations. As a consequence Scenic has decided to refocus its resources on its historical aerial sightseeing operations, and discontinue scheduled service operations."

Under the leadership of this Committee, Congress addressed this issue in Section 402 of Vision 100 by affording DOT a rate-indexing mechanism by which it could make real-time rate adjustments during periods of significantly increased costs. There is little doubt that situations like the one with Scenic Airlines in Merced, Visalia, and Ely could have been prevented, had Section 402 actually been implemented. Unfortunately, DOT has been unwilling to implement this program, to date. RAA, therefore, respectfully asks that Congress include language in the expected FAA bill to mandate DOT's cooperation in making real-time rate adjustments for extraordinary cost increases. Further, RAA requests an audit on unspent annual EAS funds, and requests that any leftover funds are redirected to the EAS program in order to make real-time retrospective rate adjustments.

RAA stands ready to help Congress enact further EAS program reforms as the next FAA reauthorization approaches. We understand that a rewrite of the eligibility criteria may become necessary. These decisions, however, should be based on rational factors and not due to a funding crisis at the DOT.

The most important thing, therefore, Congress could do right now to help EAS communities is to ensure the $117 million funding level included in both House and Senate DOT spending bills this year remains intact as the appropriation bills near completion. We also ask that Congress ensure whatever criteria are applied toward eligibility reform, they be applied consistently, with an eye toward enhancing the program and protecting rural air service.

The proposal detailed by my colleague this morning would severely cut the EAS program, effectively forcing out a third of the communities that now use the program. Their recommendation sets up a complicated reform that takes the "air" out of Essential Air Service, telling residents of smaller communities that convenient, reliable air service is a luxury they can't have.

We share with this committee an understanding of the critical role air service plays in driving the economies of smaller communities, and request the Committee's assistance in helping us reject such draconian program cuts.

Part of the nature of the EAS program, as you know, is that carriers compete rigorously for contracts. Even in cases where an incumbent carrier desires to continue serving a given market, DOT

has the right to select another carrier. The current practice, where DOT holds carriers in a market for 30-day increments of time, is untenable. This practice means a carrier cannot sell tickets in the EAS market beyond 30 days, yet it also cannot make plans to utilize its aircraft elsewhere. We urge Congress to end this unfair practice by mandating that DOT adopt a date-certain component for allowing incumbent carriers to exit markets where service is awarded to a new carrier.

We are eager to work together with this committee and with Congress as it takes up the issue of the EAS program reform, and we urge Congress to enact measures aimed at enhancing service to the smallest communities, rather than espousing proposed funding cuts that, however well intentioned, can only serve to undermine small community air service.

Mr. Chairman, thank you very much for the opportunity to testify today and for your continued support of this program.

[The prepared statement of Ms. Malarkey follows:]

PREPARED STATEMENT OF FAYE MALARKEY, VICE PRESIDENT, LEGISLATIVE AFFAIRS, REGIONAL AIRLINE ASSOCIATION

Introduction and Background

Good morning. Mr. Chairman and members of the Subcommittee, on behalf of the 42 airline members of the Regional Airline Association, thank you for inviting me to appear before you today to discuss issues related to rural air service in general and the Essential Air Service program in particular. We see this as a timely opportunity to lay the groundwork for our common objectives for the Essential Air Service program in advance of next year's Federal Aviation Administration Reauthorization and we thank the Committee for holding the hearing at this time.

My name is Faye Malarkey and I am Vice President of Legislative Affairs with the Regional Airline Association, or RAA. RAA represents regional airlines providing short and medium-haul scheduled airline service, connecting smaller communities with larger cities and hub airports operating 9 to 68 seat turboprop aircraft and 30 to 108 seat regional jets. RAA's member airlines transport 97 percent of total regional airline industry passengers. Of the 664 commercial airports in the Nation, fully 479 are served exclusively by regional airlines. In other words, at 72 percent of our Nation's commercial airports, passengers rely on regional airlines for their only source of scheduled air transportation.

The Department of Transportation currently subsidizes service to approximately 140 rural communities across the country, which would not otherwise receive scheduled air service, through the Essential Air Service Program, or EAS, which was enacted as part of the Airline Deregulation Act of 1978. The EAS program was crafted to guarantee that small communities served by certificated air carriers before deregulation would maintain a minimum level of scheduled air service after deregulation.

The program has been in effect each year since 1978 at various funding levels and has undergone several eligibility criteria adjustments, taking into account distance from nearby hub airports and other factors. Most recently, in Fiscal Year 2006, the EAS program was funded at $110 million. Current versions of both House and Senate DOT spending bills have funded EAS at $117 million. RAA applauds this committee in particular for actively working with appropriators to secure these funding levels. We remain committed to working with Congress to ensure that the EAS program continues to receive appropriate funding.

Before returning to this subject, I would like to provide some background information on regional airline service. As you know, most regional airlines operate in partnership with the major airlines under code-sharing agreements. In fact, in 2005, 99 percent of the 151 million passengers transported by regional carriers traveled on code-sharing airlines. Code-sharing agreements, which provide benefits for passengers, regional and major airlines, have two broad methods of revenue sharing. The first, prevalent among larger regional carriers operating regional jets, occurs when a major and regional airline enter into a "fee-for-departure" or "capacity buy" agreement where the major compensates the regional airline at a predetermined rate for flying a specific schedule. Within this arrangement are operational stand-

ards for customer service, on-time performance and baggage handling requirements as well as incentives rewarding excellent performance.

A second arrangement, common to smaller, turboprop operators, occurs when major airlines pay regional airlines a portion of passenger ticket revenue. This is referred to as "pro-rate" or "shared revenue" flying. While regional airlines with pro-rate agreements are most vulnerable to cost increases and the recent fuel cost crisis, it is important to note that fee-for-departure carriers also suffer when fuel costs increase this dramatically. Even if the regional airline is compensated by the major airline for fuel costs, the majors must take those increased costs and the market's profitability into consideration when route and capacity decisions are made. Major carriers have no choice but to eliminate regional routes that lose money for long periods, even if those routes contribute some connecting revenues to the mainline system. In some cases, this means the fee-for-departure carriers finds itself forced to park aircraft.

Regional airlines are providing critical service to smaller communities with airplanes that use much less fuel than larger aircraft. Turboprop aircraft are among the most fuel efficient aircraft for short-haul routes and RJs have some of the most modern, fuel efficient engines in the airline industry. Like our major airline counterparts, regional carriers have sought to minimize fuel burn by tankering fuel, lowering cruise speeds, safely altering approach procedures and reducing onboard weight, making every effort to manage escalating fuel costs with an eye toward conservation. Nonetheless, fuel remains the second highest cost for airlines, ranking just behind labor.

As you know, most of the major airlines are experiencing some of the most daunting challenges in the history of the industry. They cannot afford to continue unprofitable routes and when this service is discontinued, regional airlines and passengers in small communities suffer as well.

Small Community Air Service

With the anniversary of the 9/11 attacks just days behind us, a look at the implications of these events 5 years later shows the most deleterious air service reductions have occurred among rural communities. According to data compiled by Back Aviation solutions, a comparison of the total number of nonstop flights to and from the contiguous 48 United States illustrates the most dramatic service losses in rural communities. Among the smallest airports, such as those with between one and three departures per day, there has been a 21 percent decline in daily departures between September 2001 and September 2006. Thirteen of these airports have lost service altogether. Airports with between three and six daily flights in September 2001 have experienced a 33 percent decline in departures with eight such airports losing service altogether.

It is within the context of this decrease in rural air service that we begin to take up the issue of reforming the Essential Air Service program during the upcoming FAA Reauthorization process.

Essential Air Service

Because of increasing costs and continuing financial pressures in the aviation industry, at least 40 additional communities have been forced into the EAS program since September 11, 2001. In the past several months alone, four EAS communities have lost air service. One of the single greatest factors accounting for these losses is the staggering and continuous increase in fuel prices.

As you know, the Essential Air Service program is administered by the Department of Transportation, where "best and final" competitive proposals are submitted by regional carriers. The Department selects carriers and establishes EAS subsidy rates based on that bidding process. If a carrier is the only airline serving an EAS-eligible community and wishes to exit the market, DOT regulations require that carrier to file a 90-day service termination notice. DOT holds that carrier in the market during this period, while a subsidy eligibility review or competitive bidding process is undertaken. Likewise, carriers operating EAS-subsidized routes must also file a 90-day service termination—subject to even more onerous hold-in policies—in order to trigger a rate renegotiation if costs increase significantly during the lifetime of the rate agreement.

As part of the EAS application process, carriers negotiate in good faith with DOT on subsidy rates that remain in effect for 2 years. EAS carriers must project revenues and costs over this two-year time-frame—no easy task in today's volatile cost environment. In cases of unexpected cost increases, EAS carriers lack a mechanism to renegotiate rates and must instead enter into the unpalatable process of filing notice to terminate service in 90 days in order to begin the process for seeking compensation rates that cover increased costs. This inevitably causes ill-will between an

airline and the community, in some cases fostering a sense of unreliability that ultimately undermines the use of the air service and further drives up subsidy rates as fewer passengers traveling causes air fares to climb.

One of the fundamental tenets of the Essential Air Service program held that no carrier should be expected to serve any market at a loss. Yet, in cases of unexpected cost increases, carriers are unable to provoke rate changes without filing such service termination notices, after which each carrier must continue to provide the service, at a loss, for 180 days while DOT opens the competitive bidding process.

Fuel cost increases remain the single-most dramatic factor behind service reductions. Take the case of Merced, California, one of the DOT's noted success stories of 2005. While the carrier involved with the market engaged in rigorous cost savings and was able to initially double the traffic forecast in its original EAS proposal, escalating fuel costs ultimately caused the carrier to file 90 day notices at Merced as well as Visalia, California, and Ely, Nevada, noting:

> "Scenic's need to terminate service at [Merced/Visalia/Ely] stems primarily from fuel cost escalations that have undermined the economic viability of the carriers' EAS operations. As a consequence, Scenic has decided to refocus its resources on its historical aerial sightseeing operations and discontinue scheduled-service operations."

Congress addressed this issue in Section 402 of Vision 100, the Century of Aviation Reauthorization Act, by affording DOT a rate indexing mechanism by which it could make real-time subsidy rate adjustments during periods of significantly increased costs. With an eye to preventing deliberate cost underestimation, Congress included an index where "significant increase" is defined as a 10 percent increase in unit costs that persists for two or more consecutive months. There is little doubt that situations like the one with Scenic Airlines and Merced/Visalia/Ely could have been prevented had Section 402 been implemented to curb the grave financial consequences that EAS carriers are experiencing as a result of serving markets at a loss due to climbing fuel prices.

Unfortunately, DOT has been unwilling to implement the program to date, citing a lack of specific appropriations for the activity. RAA therefore respectfully asks that Congress include language in the expected FAA bill to mandate DOT's cooperation in making real-time rate adjustments for cost increases. Further, RAA requests that Congress request an audit on unspent, obligated funds and that any leftover funds be redirected to the EAS program in order to make real-time, retrospective rate adjustments to carriers facing cost increases relative to section 402 of Vision-100.

Eligibility Criteria

RAA stands ready to help Congress enact further EAS program reforms as the next FAA reauthorization takes place. We understand that a rewrite of the eligibility criteria may become necessary as some of the rules set nearly three decades ago may no longer apply. These decisions, however, should be based on rational factors and not a funding crisis at DOT. The most important thing Congress could do right now to help passengers in EAS communities and the airlines serving them is to ensure the $117 million funding level included in both House and Senate DOT spending bills remains intact as the FY07 appropriations bills near completion.

Next, as we consider a potential eligibility criteria rewrite, we ask that Congress ensure whatever criteria is applied to these decisions be applied consistently and with an eye toward enhancing the program and protecting rural air service. We also ask that any community reductions be revenue-neutral. In other words, subsidies recovered from any communities losing eligibility should not be diverted from the EAS program but, instead, should be reinvested in the program to help increase frequency along other viable routes. Given the correlation between increased frequency and increased enplanements, such a reinvestment could actually serve to help some communities reduce or eliminate their subsidy reliance altogether.

Cost Sharing Recommendations

As you know, the past several Presidential budget requests have proposed severe cuts to the EAS program and would establish a $50 million cap on program expenditures as well as strip the program of its entitlement status. The Administration would create three community categories based on hub airport distance and would establish cost-sharing criteria that would likely dismantle the program. EAS communities within 100 miles to large hub airports, 75 miles to small-hub airports, or 50 miles to airports with jet service would lose commercial air service and receive only 50 percent of previous funding for surface transportation use only. Communities less than 210 miles to a large or medium hub would receive a 25 percent

funding cut. Communities more than 210 miles would experience a 10 percent funding cut.

This proposal would severely cut and potentially dismantle the EAS program as funding would fall by $59 million, effectively forcing out a third of the communities that now use the program. The recommendation sets up a complicated reform that takes the "air" out of Essential Air Service, telling residents of smaller communities that convenient, reliable air service is a luxury they can't have; instead suggesting surface alternatives.

We share with this committee an understanding of the critical role air service plays in driving the economies of smaller communities and request the Committee's assistance in helping us protect rural communities against EAS program cuts that would undermine the program.

Date Certain for Market Exit

Part of the nature of the Essential Air Service program, as you know, is that carriers compete rigorously for contracts. Even in cases where an incumbent carrier desires to continue serving a given market, DOT has the right to select another carrier to serve that market. In these cases, where DOT awards the service to a new carrier, DOT must give the incumbent carrier a date certain when it may exit the market, without exception. The current practice, where DOT holds the carrier in markets in 30 day increments, is untenable. This practice means a carrier cannot sell tickets in the EAS market beyond 30 days, nor can it make plans to utilize its aircraft elsewhere. We urge Congress to end this unfair situation by mandating that DOT adopt a date-certain component for incumbent carrier market exits when it selects an alternate carrier to serve the market.

Per Passenger Subsidy Cap Adjustments

Within the past 2 months, four communities, including Enid and Ponca City, OK, Moses Lake, WA, and Bluefield/Princeton, WV, have lost service because of the per-passenger subsidy cap in place for EAS markets. This subsidy cap was set at $200 per passenger in 1990 and has not been indexed for inflation since that time. Even without factoring in increasing fuel costs, some carriers are concerned that the subsidy cap is outdated and does not account for the true cost of providing air service to rural communities. While the Association has not yet taken a position on this issue, we request that any discussion of EAS reform also examine the benefits and alternatives to adjusting the subsidy cap to account for inflation as well as to consider a mechanism for indexing the cap for inflation on an annual basis.

We are eager work together with Congress in order to enact meaningful reforms to the EAS program and urge the Congress to enact measures aimed at enhancing service to the smallest communities rather than espousing proposed funding cuts that, however well intentioned, can only serve to undermine small community air service.

Other Rural Air Service Impacts

Aviation Security Fee Increases

As you know, the aviation security fee would increase by 120 percent to $5.50 under recent Administration proposals, capped at $8 for one-way travel and at $16 for round-trips under the budget proposal. We applaud this Committee for its actions in opposing such increases and its understanding that this tax increase jeopardizes airline jobs and flights to small and medium-size communities. Passengers traveling to rural communities would be disproportionately impacted because regional flights mean multiple flight segments and more tax occurrences.

The new tax would raise the cost of air travel rise by an estimated $1.5 billion a year and would bring the total Federal security tax on airlines to $4.7 billion. Such tax increases would only serve to further divert resources away from airlines, already struggling to provide service to small and rural communities. This tax increase will raise fares for travel to rural communities and makes this service even more expensive for carriers, putting air service to rural communities at risk.

We therefore urge Congress to continue to reject security fee increases that would jeopardize rural air service.

Demand Management

At LaGuardia, service to small communities and other regional airline service will be jeopardized if FAA adopts its proposal to discourage the use of smaller aircraft at La Guardia. Although Congress decreed that La Guardia should be open to all flights serving small and non-hub airports in 2000, FAA cut back the number of these LaGuardia flights to reduce congestion caused by the popularity of service between La Guardia and these small communities. Rather than encouraging service

to smaller communities with smaller aircraft at La Guardia as Congress directed, however, FAA is now proposing to create average aircraft size requirements that would limit small aircraft and the small cities they serve at La Guardia.

Although the proposed rules contain options for protecting small community air service, one of the proposals would expand overall small community service at La Guardia, and one of the options would protect service only for smaller communities within 300 miles of La Guardia. The more small community service protected under the proposals, the greater the average aircraft size required for other flights at La Guardia, thereby encouraging the reduction of competition on routes served with small aircraft. This is likely to create monopoly routes along routes where competition exists today and could serve to eliminate service altogether on other routes.

We therefore ask Congress to exercise its oversight as FAA continues through the rulemaking process to ensure that carriers are not be penalized, in terms of fees or slots at La Guardia, for using smaller airplanes to serve smaller communities. Such actions at La Guardia, which will likely set the precedent for other airport demand management models, limit service and fare choices of passengers in small or medium-sized cities. Regional passengers pay the same aviation taxes and fees as other travelers and should not face higher ticket prices or limited travel options because we failed to modernize and expand the airport and airway system.

Conclusion

Mr. Chairman, thank you for the opportunity to testify on this important issue today and thank you and the Committee for continuing to afford us this opportunity to shape and protect a program that is important to both our constituencies. I look forward to responding to your questions at the conclusion of the panel.

Senator BURNS. Thank you. And thank you for your time and your testimony. We look forward to working with you, too, as we move into the FAA reauthorization.

Mr. Torgerson, the man sitting next to you, I would imagine you might have some roots in Hill County, Montana, because we have some Torgersons down there in that part of the world.

Mr. TORGERSON. I'm not sure, Mr. Chairman.

Senator BURNS. You're from Alaska? You're the Deputy Commissioner of Aviation, Department of Transportation, and we look forward to your testimony. Thank you for coming today and making the long trip.

STATEMENT OF JOHN TORGERSON, DEPUTY COMMISSIONER OF AVIATION, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, STATE OF ALASKA

Mr. TORGERSON. Thank you, Mr. Chairman.

My name is John Torgerson. I've resided in Alaska since 1950, so aviation in the rural part of Alaska and America are part of my line.

To Alaska, aviation is a critical transportation mode that provides the basic necessities of life. In rural Alaska, air transportation is the sole method of transportation to get to the doctor, the dentist, and, in some communities, even the grocery store. Some Alaskans even rely on daily air service to attend school. Every morning and evening, the kids in South Naknek load into a Piper Cherokee Six aircraft to fly to school. School programs around the state routinely fly students to school events, because there are no road connections.

The State of Alaska owns and operates 260 airports. We have two large international airports located in Anchorage and Fairbanks. We have 258 community-class airports located across the state, from as far north as Barrow, to Ketchikan in the south, and Adak, in the east. To put that in perspective to the United States,

it would be like flying from Michigan to Florida, and then from Florida to California.

The small communities of rural Alaska, which most depend on the Essential Air Service, are the very communities that are not connected by roads to the rest of our state. Thirty-nine Alaska communities are currently receiving the Essential Air Service program, with 14 separate air carriers providing that service. One carrier provides jet service to six communities, and the other 39 communities are serviced by smaller propeller aircraft. The aircraft used includes Cessna 185s, Beavers on floats, and even a Grumman Goose.

Over the last 3 years, the amount of funds administered under the Essential Air Service program to Alaska air carriers has increased less than the general rate of inflation, despite higher inflation and fuel costs. During this same period of time, the total number of passengers using Essential Air Service has increased from 69,770 to 73,133.

In 2002, the GAO indicated that further fiscal discipline may be necessary, and identified four options to control costs and improve the program's stability.

First, targeted subsidized service to more remote communities. That is exactly what happens in Alaska. Most of our Alaskan rural communities are completely dependent on air service, because the state has only 4,732 miles of paved road. In comparison, the State of Virginia has over 70,000 miles of paved road.

Second, much better capacity—or better match capacity with community use by increasing the use of smaller aircraft. Again, this is exactly what happens in Alaska. As I've already stated, only six of our Essential Air Service communities receive jet service. The others are serviced by some of the smallest aircraft in commercial use. Alaska air carriers regularly use planes that only hold three passengers. The citizens of Akutan rely on the Grumman Goose, last built in 1947, for their Essential Air Service.

The third recommendation from the GAO was to consolidate service into regional airports. Again, this is exactly what happens in Alaska. Essential Air Service programs subsidize the movement of passengers and freight from 39 small communities to one of nine primary regional airports.

Fourth, change the form of Federal assistance from carrier subsidies to local grants. Alaskans believe the program is working well and request no changes in this funding method be made. Basically, most of these smaller communities don't have the staff to administer a program, if one was made available to them.

Mr. Chairman, Alaska and her rural communities rely every day on Essential Air Service. We know that it is well-administered, and are happy with the program, as it is regulated today.

Just some comments on the Small Community Air Development Grant. Mr. Chairman, we applied for a grant in April of 2006 and was awarded $500,000 to foster the diversified air service to Fairbanks. Having just completed this process, I'll provide a few of my impressions of the program.

First, the program creates public-private partnerships. It fosters interagency and community partnerships by encouraging the local

match and involvement in the marketing and strategy plan to attract new and diversified air service.

It creates competition, provides funding to a new air service in challenging markets that either do not have air service or have a monopolistic service that is unnecessarily penalized as a customer.

It fosters economic development. New or diversified air service results in additional travel from both local and recipient communities, bolstering their economies, allowing for expanded routing and competitive fares that fosters an increase in travel.

It has—the program has great administrative support from start to finish; clear and relatively simple process from the application through the award; excellent support from knowledgeable DOT staff. We have received immediate responses to all our questions and our concerns in regard to the program and its structure.

From Alaska's perspective, we have high expectations that this program will attract service for a new city pair, increase the economic opportunities for our communities, and add diversity to the traveling public.

Mr. Chairman, thank you for the opportunity to comment, and I'd be glad to take your questions.

[The prepared statement of Mr. Torgerson follows:]

PREPARED STATEMENT OF JOHN TORGERSON, DEPUTY COMMISSIONER OF AVIATION, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, STATE OF ALASKA

Good Morning Mr. Chairman and members of the Committee.

You have requested testimony on the purpose, importance, obstacles, and possible reforms for the U.S. Department of Transportation's Essential Air Service, and the Small Community Air Service Development program.

To Alaskans, aviation is the critical transportation mode that provides the basic necessities of life. In rural Alaska, air transportation is the sole method of transportation to get to the doctor, dentist, and, in some communities, even the grocery store. Some Alaskans even rely on daily air service to attend school. Every morning and evening kids in South Naknek load into a Piper Cherokee Six aircraft to fly to school. Schools programs around the state routinely fly students to school events because there are no road connections.

The State of Alaska owns and operates 260 airports:

- 2 large international airports located in Anchorage and Fairbanks.
- 258 community class airports located across the state from as far north as Barrow to Ketchikan in the south and Adak in the east. This distance, is the same as flying from Michigan to Florida, and then to California.

A vast majority of these communities are land locked and not connected by any road link. The small communities of rural Alaska, which most depend on the Essential Air Service program, are the very communities that are not connected by roads to the rest of the state.

Thirty-nine Alaska communities are currently receiving Essential Air Service, with fourteen separate air carriers providing that service. One carrier provides jet service to six communities and the other thirty-three communities are serviced by smaller propeller aircraft. The aircraft used, include Cessna 185s, Beaver floatplanes and even Grumman Goose.

Over the last 3 years, the amount of funds administered under the Essential Air Service program to Alaskan air carriers have increased less than the general rate of inflation, despite greater inflation in fuel costs. During this same time period the total number of passengers using Essential Air Service has increased from 69,770 to 73,133.

In 2002 the GAO indicated that further fiscal discipline may be necessary and identified four options to control costs and improve the program's sustainability.

First, target subsidized service to more remote communities. That is exactly what is happening in Alaska. Most of Alaska's rural communities are completely dependent on air service because the state has only 4,732 miles of paved roads. In comparison, the State of Virginia has over 70,000 miles of paved roads.

Second, better match capacity, with community use, by increasing the use of smaller aircraft. Again, this is exactly what we are doing in Alaska. As I have already stated, only six of our Essential Air Service communities receive jet service. The others are served by some of the smallest aircraft in commercial use. Alaskan air carriers regularly use planes that can only hold three passengers. The citizens of Akutan rely on a Grumman Goose, last built in 1947, for their Essential Air Service.

Third, consolidate service into regional airports. Again, this is exactly what happens in Alaska. The Essential Air Service program subsidizes the movement of passengers and freight from the 39 smaller community class airports to one of nine primary regional airports.

Fourth, change the form of Federal assistance from carrier subsidies, to local grants. Alaskans believe the program is working well and request that no changes in the funding method be made.

Mr. Chairman, Alaska and her rural communities rely everyday on the Essential Air Service program, we know that it is well administered and are happy with the program as it is regulated today.

Small Community Air Service Development Grant

Mr. Chairman, I was also asked to testify about the Small Community Air Service Development Grant program. The State of Alaska applied for a grant in April 2006 and was awarded $500,000 to foster diversified air service to Fairbanks. Having just completed this process, I will, provide you with my impressions of the program:JLW

Creates Public-Private Partnerships: Fosters interagency and community partnerships by encouraging a local match and involvement in the marketing strategic plan to attract new and diversified air service.

Creates Competition: Provides funding for new air service in challenging markets that either do not have air service and/or monopolistic service that unnecessarily penalizes the customer.

Fosters Economic Development: New and/or diversified air service results in additional travel for both local and recipient communities—boosting their economy. Allows for expanded routing and competitive fares that fosters an increase in travel opportunities for all types of travelers.

Supportive Program from Start to Finish: Clear and relatively simple process from the application through the award. Excellent support from knowledgeable DOT staff. We have received immediate responses to all questions and/or concerns in regards to the program and its structure.

From an Alaskan perspective, we have high expectations that this program will attract service for a new city pair, increase the economic opportunity for the communities, and add diversity for the traveling public.

Mr. Chairman, Thank you for the opportunity to comment today.

I would be glad to answer any questions that you and the Committee might have.

Senator BURNS. Thank you. We thank you.

And I'm sorry I mispronounced your name, Commissioner. Kaercher, I guess it is. Is that correct?

Mr. KAERCHER. Much closer, but you're not the only one that misses it.

[Laughter.]

Senator BURNS. Thank you for coming and making the trip. We look forward to your testimony.

STATEMENT OF HON. DOUGLAS KAERCHER, COUNTY COMMISSIONER, HILL COUNTY, MONTANA; ON BEHALF OF THE PRESIDENT, MONTANA ASSOCIATION OF COUNTIES (MACo); NATIONAL ASSOCIATION OF COUNTIES

Mr. KAERCHER. Good morning. Chairman Burns, my name is Doug Kaercher. I am a County Commissioner from Hill County, Montana. I am here representing Hill County, the Montana Association of Counties, as its President, and the National Association of Counties. I want to thank you, Senator Burns and the rest of the Committee, for the invitation to testify on Essential Air Service.

Essential Air Service is extremely important to NACo members from rural areas, to Hill County, to the seven additional communities in Montana that receive EAS, and to the approximately 143 other communities in 36 states, such as Alaska, Hawaii, West Virginia, Maine, and North Dakota, that have EAS.

In a nutshell, EAS keeps these communities linked to the rest of America. It provides a link for citizens to travel to larger communities plus a link to the Nation and the world through the hub airports that EAS connects. EAS plays a key role in local communities by attracting and retaining businesses that depend on commercial air service; in healthcare, by enabling our citizens to easily access sophisticated healthcare that is often absent in rural communities; and by making the business of government work better when elected officials, such as myself, can fly to the state capital to confer with key state officials.

When the Commerce Committee, in 2007, considers the reauthorization of Federal airports and aviation programs, we urge you to extend EAS and provide an authorized level of funding that is adequate to meet the demands and costs of the program.

The Havre City-County Airport is located in Hill County and is jointly administered by a City-County Board. Big Sky Airlines has EAS service to Billings, Montana, and flies into and out of Havre twice daily, Monday through Friday, and once a day on Saturday and Sunday, using a 19-passenger turboprop aircraft. This service carried 2,973 passengers in 2005.

What does commercial service mean to our region? Hill County, with a population of about 17,000, is 250 miles from Billings, the commercial, financial, and healthcare hub of Montana. Without EAS service, our economic development efforts would be seriously hampered. Often, the first question we get when recruiting industry is whether we have passenger air service. It is unlikely that a company would locate in our community if the closest good air service was a 2-hour drive. Our current employers depend on EAS. Havre is the home of a Burlington Northern Santa Fe Railroad regional headquarters and a General Electric repair facility. These two large corporations are constantly flying their employees in and out. A substantial amount of oil and gas exploration is taking place in Hill County and the adjoining region, with many workers using Big Sky Airlines. Montana State University is located in Havre. The air service makes it easier for faculty, students, and visitors to take advantage of the university.

Because of declining number of acres in agriculture production, the agriculture equipment dealers in our community are fewer, and farmers and ranchers are dependent upon Big Sky to ship those needed parts to keep their equipment running in a timely fashion.

Billings is the medical capital of Montana, where our citizens go for specialized and advanced medical care. EAS service makes it possible for citizens in rural communities such as ours to take advantage of the type of medical care that is easily accessible to residents of metropolitan areas. EAS allows an individual in need of such critical care to avoid a 10-hour roundtrip drive to Billings.

EAS also allows citizens and elected officials in Hill County to better participate in government. As a County Commissioner, I need to travel frequently to our state capital in Helena to work

with the legislature, state agencies, and the state association of counties. EAS flies to Billings, where I make a connection on Big Sky to Helena. How many elected officials and citizens are going to make that 420-mile roundtrip to talk to a legislator?

We have a substantial Native-American population in Hill County, and the residents of Rocky Boy's Reservation use EAS to go on training programs and attend meetings throughout the region and this Nation. EAS makes democracy in Montana a little more accessible.

There are seven other EAS communities in Montana, and members of the Commerce Committee need to understand Montana to understand why we have so many EAS-subsidized air service communities. Montana is the fourth-largest state in the Union, and the distances between communities are substantial. Our state is 255 miles by 630 miles. Imagine, from Wolf Point, Montana, an EAS community, it is 317 miles to Billings, or 5 hours in a car. That's about the distance from Hartford, Connecticut, to Washington, D.C., or St. Louis to Chicago. If you want to get to Helena, the distance is 412 miles, or 8 hours. Just think about a 10-hour road trip to see a medical specialist, or a 16-hour trip to visit the state capital.

From Glasgow, the drive to Billings is 277 miles, or 6 hours, and 363 miles, or 7 hours, to Helena.

The other EAS communities are also long distances from Billings. From Glendive, it's 222 miles; from Sidney, 272 miles; from Miles City, it's 146 miles.

West Yellowstone, our eighth EAS community, has a service on Sky West to Salt Lake City, on a seasonal basis.

Without EAS, there would be no alternatives to these long drives—no Amtrak, no bus service. To a varying degree, this describes all of the approximately 150 communities currently served by EAS, about 115 in the continental United States, Hawaii, and Puerto Rico, and 35 in Alaska. In Montana, the EAS subsidy is about $7 million per year, which provides air service to nearly 60 percent of Montana's population. Those of us that live in rural Montana believe this is a small price to pay to keep the citizens of small and rural communities connected. The current total cost of EAS program is about $110 million, with about $60 million coming from the general fund. For $110 million a year, we have been able to keep 150 rural communities linked to the rest of America. That's a great investment.

Mr. Chairman, this concludes my testimony. I'd be happy to answer any questions.

[The prepared statement of Mr. Kaercher follows:]

PREPARED STATEMENT OF HON. DOUGLAS KAERCHER, COUNTY COMMISSIONER, HILL COUNTY, MONTANA; ON BEHALF OF THE PRESIDENT, MONTANA ASSOCIATION OF COUNTIES (MACO); NATIONAL ASSOCIATION OF COUNTIES

Good morning, Chairman Burns and Members of the Subcommittee on Aviation. My name is Doug Kaercher and I am a County Commissioner in Hill County, Montana. I am here representing Hill County, the Montana Association of Counties (MACo) as its President, and the National Association of Counties (NACo). *

*The National Association of Counties (NACo) is the only national organization that represents county governments in the United States. Founded in 1935, NACo provides essential

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EAS also allows the citizens and elected officials in Hill County to better participate in government. As a County Commissioner I need to travel frequently to our state capital in Helena to work with the legislature, state agencies and our state association of counties. EAS flies to Billings where I can make a connection on Big Sky to Helena. How many elected officials and citizens are going to make that 420-mile roundtrip by car to talk with a legislator? We have a substantial Native American population in Hill County and the residents of Rocky Boy's Reservation use EAS to go to training programs and attend meetings throughout the region. EAS makes democracy in Montana a little more accessible.

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services to the Nation's 3,066 counties. NACo advances issues with a unified voice before the Federal Government, improves the public's understanding of county government, assists counties in finding and sharing innovative solutions through education and research, and provides value-added services to save counties and taxpayers money. For more information about NACo, visit *www.naco.org*.

ney it's 272 miles, from Miles City it's 146 miles. West Yellowstone, our eighth EAS community, has service on Sky West to Salt Lake City on a seasonal basis. Without EAS, there would be no alternative to these long drives—no Amtrak and no Greyhound service. To a varying degree, this describes all the approximately 150 communities currently served with EAS service—about 115 in the continental United States, Hawaii and Puerto Rico and 35 in Alaska.

In Montana, the EAS subsidy is about $7 million per year, which provides air service to nearly 60 percent of Montana's population. Those of us who live in rural Montana believe this is a small price to pay for keeping the citizens of small and rural communities connected. The current total cost of the EAS program is about $110 million a year, with about only $60 million coming from the general fund. For $110 million a year, we have been able to keep 150 rural communities linked to the rest of America. That's a great investment.

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions you or other Members of the Subcommittee have.

Senator BURNS. Thank you very much.

I have another way of describing how big our state is. From the Yaak, which is up in the northwest corner of the state, to Alzada, which is down in the southeast part of the state, it is further than it is from Chicago to Washington, D.C. And we have folks who live in every corner in—of the state, and it's a truly remarkable kind of place.

Ms. Malarkey, have you—you heard the—Mr. Reynolds talk about new formulas being considered by the Department of Transportation, and maybe a new approach in taking that. Do you agree with some of those? And does—is it time that we take a look at reforms to be made in the program?

Ms. MALARKEY. Yes, our Association stands ready to look at those reforms, and would like to provide leadership in that area. We recognize that it's been about three decades since these were written. And, of course, some of the eligibility criteria do need to be reevaluated.

With this said, our largest concerns centers on program funding. Our first priority, with respect to program reform, is to ensure that potential eligibility rewrites do not end up diverting money away from the program in the long-term. Any money that's moved around as a result of program reform should actually be reinvested in the program.

Some of the things that we think could be particularly helpful would be increasing frequency along some routes where the community has seen some viability. We need to be sure the funding is there for the program, overall. If we start to talk about possible incentives to increase use, such as marketing programs, we must ensure that the base program is fully funded first.

Senator BURNS. Mr. Torgerson, Alaska is a huge state. We can't even hold a candle to you. You heard the Assistant Secretary. Do you have a—do you have some opinion on what—his testimony, this morning?

Mr. TORGERSON. Mr. Chairman, when I was researching my facts for this hearing, I found a 2002 GAO report which basically stipulated the four points that were reiterated earlier this morning. I believe that Alaska is the poster child for those four points.

So, does the program need some reforms? I believe it probably does. I mean, finding a stable funding source so that we're not scrambling every year to know if we're in or out of the program; you know, inflation-proofing, and some of the other things.

But everything else, I'd have to wait and see what was proposed by the Department before I would really be able to give a qualified answer.

Senator BURNS. With regard to—you say you have some communities that do not have staff to deal with the grant programs. Does your Department in Anchorage—do you assist those people in preparing those grants, and help them manage those grants, where they don't have enough staff to do so themselves?

Mr. TORGERSON. Mr. Chairman, my Department does not, but we do have a Department of Commerce and Economic Development and Community Advocacy who do receive grants and do things for those communities, some of those communities. But a lot of these don't really have—they have community councils, they don't necessarily have, you know, a government, per se, or there might be tribal entities that are there.

Senator BURNS. Did you—but has that—have you given any thought to that, of helping those folks out?

Mr. TORGERSON. Well, there's—we do, all the time, as a state, but, of course, this program hasn't had a requirement that it would go down to a community level. If there was such a requirement, I'm sure the state would step up and work either through the Department of Transportation—it would take a legislative change for us to be able to do that, but primarily through the Department of Commerce, they would probably step up and do something.

Senator BURNS. Mr. Kaercher, I would imagine that Havre would serve, what, Liberty and Blaine Counties, along with Hill County, in that—your airport there. What can we do, or what can you do, in order to increase your ridership out of Havre, Montana?

Mr. KAERCHER. Well, I believe Hill County and the City-County Airport has been pretty progressive in funding their airport improvements, as far as keeping the airport up and in good shape. We've just recently finished a terminal upgrade. But I believe our airport's in good shape; it looks nice. I think that gives confidence to the riders that come up to the airport. But I believe, through our Chambers of Commerce and certainly through our universities, just in that marketing alone, and trying to promote this service, a lot has been done just to get those in our region to use our air service.

Senator BURNS. Now, the flights out of—let's say, out of Havre, do they have intermediate stops before you get to Billings?

Mr. KAERCHER. Yes, sir, they stop in Lewistown.

Senator BURNS. Lewistown. No—and—OK. What if you had one that stopped in Helena?

Mr. KAERCHER. I think our ridership would probably double if it was to go that direction. Besides Billings being a regional hub for financial and healthcare, Helena is certainly the governmental hub of Montana, and a lot of our residents and businesspeople make that trip to Helena on a regular basis.

Senator BURNS. Have you—have—do you—is the—is Big Sky—are they open for some dialogue on—when they—when you talk about schedules and service?

Mr. KAERCHER. As far as I know, sir, that dialogue is actually pretty new with Big Sky, but I believe they are starting to look at that side of the riders.

Senator BURNS. Also, I guess, whenever we start talking about the reauthorization of the FAA, I would hope that some of the ideas that you put forward, say, as a result of this hearing, and some ideas, new ideas, and some reform ideas, that we have to—I think, in some areas, we have to think outside the box, and—in order to serve some of our areas. The improvement on the program, knowing that funds are going to be tight again, as far as the Federal Government and subsidies are concerned—but—well, I happen to believe that this is very, very important, and some new ideas, some reform ideas on how we can serve it better, maybe increase our ridership, and take care of—I know parts is a big thing for—in our state, as you well know, and so, we will continue to work on that.

But always keep a little notebook of things, of how we could improve it. And as we march down this—this business of reauthorization of FAA, we'll keep those ideas in mind. And I want to thank you for your testimony.

We'll leave the—just like it's—I stated a while ago, Chairman Stevens wanted to be here this morning. He's managing a bill on the floor now. We're going to have a vote here at 11:30, and it looks like we've timed it pretty good. But I thank you for your testimony and making the long trip, because it's very, very important that this town understands the challenges that we face in states where we have large distances and no alternative transportation other than air, and it be—it would fall under the subsidization plan of the Essential Air Service. So, I thank you for your testimony, and I will—and your testimony will be taken very, very seriously as we move forward.

If you will—if the other members of this committee want to ask you questions, why, keep your record open, reply to the Committee and the individual Senator, I would certainly appreciate that.

That is just about all I have. We will leave—we'll leave the record open for a week, and I thank you for your testimony.

This committee is adjourned.

[Whereupon, at 11:26 a.m., the hearing was adjourned.]

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